

APPROVED FOR RELEASE: 2007/02/08: CIA-RDP82-00850R000200070016-5

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JPRS L/9023

8 April 1980

West Europe Report

(FOUO 17/80)



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COUNTRY SECTION

FEDERAL REPUBLIC OF GERMANY

'PROTEST POTENTIAL' OF GREEN PARTY DISCUSSED

Hamburg CAPITAL in German Mar 80 pp 85-89

[Article by Prof Rudolf Wildenmann: "Evergreen"]

[Text] A CAPITAL prologue to the 1980 Bundestag election: Rudolf Wildenmann analyzes the essence and significance of the protest potential, as concentrated chiefly with the Greens. The results of CAPITAL polls from 1976 to 1979 explain who the Greens are, where they come from and what they want.

A spectre is afoot in the Federal Republic -- the spectre of the Greens. It is making the established parties nervous, creating insecurity for their candidates for the chancellorship and taxing the campaign strategies of the Union, SPD and FDP. For this much is certain: Around midnight on 5 October 1980, when the official preliminary results of the elections to the Ninth German Bundestag are announced, it will be apparent whether the party system has survived or been broken up -- or at least has begun to break up.

Despite all its internal shortcomings, the German party system that evolved after World War II is still the most stable among the Western democracies. Under this system the Federal Republic has always remained governable during its 30-year history; that is, it has had the capacity to act in the areas of both domestic and foreign policy -- a fact that explains the subliminal envy felt by many an allied power.

The confusion of the Weimar Republic -- shortlived cabinets, governments without parliamentary majorities, a lack of political legitimacy -- was exorcised. The First Bundestag had nine parliamentary groups, barely one-third the number found in the Reichstag. The Fourth Bundestag had only three, a number that has remained constant up to this point.

It is true that a legal means contributed to this fusion process, namely the barrier in the electoral statute that prohibits parties with less than 5 percent of the vote from entering parliament. More essential to this

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development, however, was the political emancipation of the voters that produced a conscious concentration of forces: Parties outside the system of the established three always received only marginal percentage points and often had to be satisfied with figures that showed only a zero in front of the decimal point.

This is not to say that there was no potential for protest in those years -- as long as democratic elections have been in existence, they have also reflected dissatisfaction -- but in the Federal Republic the crossover among dissatisfied voters has thus far involved only the Union, the SPD and the FDP. This exchange within the system made it possible in 1969 for the government and the opposition to trade places with no detriment to traditional stability: The result was a continuation of the capacity to act, with a rearrangement of parties.

This could become a thing of the past in 1980, for the entry of Green Party deputies at the expense of votes for the coalition and the opposition might complicate the matter of forming a government: no absolute majority for either Helmut Schmidt or Franz Josef Strauss -- and then what?

This phenomenon is fairly unique for German conditions: For the first time in nearly 20 years, protest has been released politically; the crossover of dissatisfied voters is no longer taking place strictly within the system of the established parties. For the first time a new idea, more accentuated than in the platforms of the established parties, is being met with spontaneous applause. Also for the first time, a fourth group has a chance to leap over the 5-percent hurdle and into the Bundestag.

An analysis based on four representative CAPITAL polls presents the following picture of the makeup of the new protest potential:

They are chiefly young people, more likely to be university and academic secondary school students than general education students;

They come predominantly from the middle classes, chiefly the new middle class, and thus have it easier economically than members of working class families;

Accordingly, the party draws a minimal number of organized trade union members;

Equally minimal is the proportion of Catholics, whereas the great majority come from the ranks of the Protestants or free Protestant churches.

This protest potential does in fact represent a new movement that ranges from moralism to romanticism, perhaps related to the youth revivals at the beginning of the 19th and 20th centuries: emotional introspection as a social and political program.

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Table 1. Attitudes

No matter what category is being researched, whether education or family status, one element emerges repeatedly in the statistical mean: The Green Party is supported by young voters from the university sector -- those voters who had originally shown a preference for the FDP. The following groups responded to the question of whether they approve of and would vote for the Green Party (in percents):

Category	Do not approve; would not vote for	Approve, but would not vote for	Approve; might vote for	Will vote for
... By Voter Preference				
Union voters	60	20	20	--
SPD voters	51	25	24	--
FDP voters	44	24	32	--
Other voters	33	11	56	--
... By Age Groups				
18 to 23	30	21	42	7
24 to 29	39	23	34	4
30 to 39	47	24	26	3
40 to 65	57	22	20	1
Over 65	70	18	12	0
.... By Education				
General education students/apprentices	33	20	41	6
Academic secondary school students	24	23	47	6
University students	35	21	31	13
... By Vocation				
Agriculture	54	19	26	1
Industry	47	24	27	2
Services	43	23	30	4

As evidenced by the CAPITAL polls, the basic thrust of the protesters is antiauthoritarian. They consider power to be evil, even the democratic kind wielded by the established parties. They are -- and this is no contradiction -- against organizations, especially against parties. And they

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consider their well-nigh anarchistic individualism as being fundamentally democratic.

This alone may be enough to demonstrate that the Green Party is by no means an association of diverse citizens' action groups which now and then do battle with aircraft noise or autobahn rights-of-way or try obstinately to achieve greater protection for the environment by way of votes in Bonn. They are doing this as well, but the hard core that has been revealed wants more and it wants something else. For, according to the surprising results of the latest CAPITAL poll in particular, the political credo of Green Party supporters links three symbols: energy, environment and Ostpolitik. But they care little about everything else that concerns the involved majority, whether it be wages, prices or defense policy.

To go a step further, for them energy policy does not mean a guaranteed energy supply, as it does for the majority; environmental policy does not mean an increase in the quality of life. Their concept of these policies is a turning away from modern technology, against nuclear power and against the computer abomination. Cynically put, they want a return to the bicycle -- a pastime that has gone out of style. And unlike the majority, for whom Ostpolitik means accommodation with the communist world, to them it means neutralism, keeping out of international affairs.

Looked at from this standpoint, the potential of the Greens is a third moral force, anticapitalist but by no means anticommunist even though there is not even a remote possibility that their supporters could be classified as communists. Nevertheless, opposition to the system and a neutralist consensus make of them a seemingly worthwhile target for communism, internally as well as externally. It is no secret that members of the DKP have gained access by way of citizens' action groups, and the duplicity of the Soviet Union as a nuclear power is clearly apparent in its efforts to prevent German nuclear energy via a neutralist group.

A movement such as this one harbors danger for the established parties in this 1980 election year -- to a far lesser extent for the Union, somewhat more for the SPD, but to a much greater extent for the FDP. The Green Party's base amounts to about 3 percent of the electorate, the same proportion as for the FDP. An additional 5 to 7 percent of the voting population could be mobilized in elections; here again, a figure similar to that for the FDP.

This potential, which is not very large but also not small, for the most part cuts across the FDP's mobilization reserves: One-third of the confirmed as well as undecided FDP voters are possible crossovers to the Greens.

This poses the question of whether the rather fragmented form of the Green Party's organization invests it with sufficient capacity to exhaust all possible voter reserves. A cautious assessment is yes. From a

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Table 2. Patterns

Green voters have three priorities in their view of the world: environment, energy and Ostpolitik. This strong linkage shows up only with this group in response to the question of which problems are the most important. The target group: young voters and university students. They are virtually uninfluenced by the issues that concern other voters: jobs, inflation or security for the elderly. In the case of these other voters, environment, energy and Ostpolitik show up among the three most important problems either not at all ("No Linkage") or only sporadically ("Slight Linkage") -- (figures in percent).

Respondents...	No Linkage	Slight Linkage	Strong Linkage
... By Age Groups			
18 to 23	43	43	14
24 to 29	51	38	11
30 to 39	48	42	10
40 to 65	56	35	9
Over 65	68	26	6
... By Class			
Workers	63	32	5
Middle class	52	38	10
Upper middle class	47	34	19
... By Vocational Training			
Industrial training	57	36	7
Business training	51	39	10
Vocational school		40	12
degree	48	30	10
Master/technician	60	57	11
Technical college degree	32	40	17
University degree	43	29	8
No degree	63		

psychological standpoint, the party's charter convention in Karlsruhe constituted precisely the informal (antiauthoritarian) presentation which is being used to address its special audience: diffuse with respect to the specific; united on the symbolic.

The Karlsruhe meeting revealed the individualistic self-image of the Greens. If this were judged to be a negative contrast to the disciplined

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image of the conventions of the Bundestag parties, it would be a false assessment. A secularized existential religion needs no general secretaries, scientific party leadership staffs or rigid organizations like those of the Union, SPD and FDP.

Thus it is that the FDP turns out to be particularly susceptible to the Green threat. It poses a dual problem to the smallest Bundestag party: First of all, whether the FDP will itself drop below the 5-percent limit; or, secondly, whether it will lose so many votes that the coalition would find itself in the minority. Both things could happen, even if the Green Party fails to make it into parliament.

Also susceptible to the Green threat is the SPD, although not to the same degree as the FDP. Slogans like the one that says the SPD is the best environmental party ever are of little help in this regard. Someone who will not buy detergents as cleaning agents will obviously pay no attention to advertisements like this.

If anyone could fend off the incursion of the Greens into the SPD, it would be the present chancellor. Even the closed ranks that actually intend to vote for the Green Party still like Helmut Schmidt. At any rate, the Union candidate for the chancellorship is in no position to attract the protest potential to his side: Franz Josef Strauss meets with a sizeable measure of rejection from the Greens, just as he does from the general population.

To be sure, his opportunity would come if the Green Party were to draw so many votes away from the coalition -- without making it into the Bundestag -- that the Union would obtain an absolute majority of the votes. It remains to be seen whether the warning by the SPD and FDP that whoever votes Green will be making Strauss the chancellor will actually prove successful. The hard core of the Greens does not want to choose between Schmidt and Strauss -- it wants to get into the Bonn parliament, it wants change.

Most of the speculation on the reasons why the Green movement came into being is coming from the leaders of the established parties themselves: competition causes one to reflect. With its rejection of the existing party system, the Greens are standing up most clearly to the party apathy that has taken over everywhere. The Citizens Party is no alternative in this regard. Compared to the political homilies of the Green leaders, the demand of a Hermann Fredersdorf resembles a pot of geraniums sitting in front of a hedge of red hawthorn.

Rejection of the existing party system explains only the form, not the substance, of the Green problem. A thorough examination of the composition of the potential makes the situation clearer: The nature of a secularized, middle-class sect speaks for itself. And indications are that its anarchistic individualism has drawn a great deal of sustenance from the content of our educational system. Certainly only one explanation,

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but an essential one, is that the German secondary school is apparently teaching a more romanticized view of the world than ever before, that it is affording itself the luxury of devitalizing educational policy. Social problems are barely touched upon because, romantically speaking, they are not a suitable topic.

A pervasive involvement of young people in the political and social life of the Federal Republic was successful only between 1969 and 1973. That which followed had to be frustrated by the high-flown promises of reform, which were symbolic in character. And this has an added effect.

And finally, a further political constraint is discernible, but first a backward glance at party history: Early in 1957 the SPD succeeded in gathering in the middle-class, neutralist All-German People's Party of the puritan Protestant Gustav Heinemann. A number of prominent Social Democratic politicians come from these ranks -- Erhard Eppler, for instance, no leftist but a moralist with a weakness for environmental protection.

As long as the Heinemann party was in existence, it exhibited basically antiauthoritarian and individualistic influences, just as the Greens do today, even though the older of the two leaderships had a more detailed political profile as the result of its experiences with the Third Reich. All the same, this takeover by the SPD was a help in gaining a foothold among the radical Protestant middle class.

Nevertheless, this Protestant group has never felt truly a part of the SPD. And it almost seems as though this loose alliance among the sons and daughters of the Heinemann generation is crumbling again -- apparently to the benefit of the Green protest.

The upshot is that a party made up of citizens' action groups could be dealt with, but not the Greens.

The political establishment will have to suffer intense confrontations with this movement for some time, whether a minority social-liberal cabinet has to come to terms with it or whether Franz Josef Strauss comes to power with its indirect assistance as a result of its being left outside the gates of the Bundestag. For an election defeat would not diminish the social influence of the Greens. The cause may perhaps have no staying power in this camp, but the type itself does:

Little inclination toward compromise;

Truly elitist;

Not bound to social groups;

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Representative of special group interests that are in conflict with the demands of a majority.

To this extent, the 1980 election to the Bundestag is a test of the Bundestag parties and the party system. Though a collapse is not to be feared, political lapses could occur.

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COUNTRY SECTION

FEDERAL REPUBLIC OF GERMANY

LABOR LEADER ON POLITICS, WAGE NEGOTIATIONS

Hamburg STERN in German 28 Feb 80 pp 263-264

[Interview with Heinz Kluncker, head of the Public Service, Transportation and Communications Union (FRG) by STERN editors Dieter Straubert and Heiko Tornow: "No Rebate for the Chancellor"; date of interview not given]

[Text] Heinz Kluncker speaks of the new round of wage negotiations in March, of sympathy strikes and lockouts, of city hall cleaning women and of Communists in the union movement.

[Question] Your union is aiming for a substantial wage rise. You are asking for 9 percent and a minimum raise of DM 180. In an election year, this comes close to kicking your friend Helmut Schmidt in the shins, doesn't it?

[Answer] Elections or not, there can be no rebate in our wage demands.

[Question] Wouldn't it bother you to stand accused of having paved the way for Strauss' election as chancellor?

[Answer] No more than the totally unfounded accusation that I was responsible for bringing down Chancellor Brandt in 1974. Besides, I really doubt that the salary and wage talks in the public service sector taking place in April will have any effect on the outcome of the Bundestag elections in October.

[Question] But a strike would have an effect, wouldn't it?

[Answer] Only in the sense that it would mobilize the working population and that will not harm anyone.

[Question] Suppose Franz Josef Strauss does get elected...

[Answer] My assumption is that Helmut Schmidt will be...

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[Question] ...would the unions adopt more of a collision course toward the government ?

[Answer] We are not a parliamentary opposition. Besides, Helmut Schmidt will stay on as chancellor.

[Question] Would that please you ?

[Answer] From a strictly personal standpoint, yes. As the head of a labor union, I would simply say that Chancellor Schmidt is conducting a policy which takes the workingman's interests into account. But, I would not mind seeing a somewhat stronger Schmidt government, freed of its conservative-liberal ballast.

[Question] Irrespective of who runs the government, there is a budget squeeze in the public sector. Management has let it be known that costly wage agreements are out of the question.

[Answer] I have never yet seen management wanting to accept union demands.

[Question] Just the same: Economics Minister Count Lambsdorff has said he could live with a 7 percent rise in wages...

[Answer] I consider any figure bruited about by politicians or experts as wage guidelines as inadmissible.

[Question] Did the Lambsdorff figure take you by surprise ?

[Answer] Nothing the Count does or says surprises me. At the same time, I do not think he made the statement inadvertently. He is intelligent enough to foresee the effect this type of numbers game can have.

[Question] What sort of effect ?

[Answer] Unionists do not experience the sweet smell of success until and unless they attain better results than those envisaged by such numbers games.

[Question] Do you mean to say that Count Lambsdorff has in effect tripped himself up ?

[Answer] Any outsider who meddles in these negotiations makes agreement more difficult and renders a disservice to collective bargaining. We do not need any governesses to tell us how to act. The Economics Minister should follow his Chancellor's example, who until now has always been wise enough to remain in the background during wage negotiations.

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[Question] You are also at odds with the Economics Minister with regard to the basic principles of the market economy.

[Answer] The term "social economy" is a slogan used by politicians intent on disguising the harsh facts of life. Both the market place and competition are useful but only with the proviso that there is no sellers' monopoly. The consumers are literally at the mercy of firms which control the market. In view of the particularly heavy burden which price rises above all impose upon the lower and middle income groups, we are not only asking for percentage rises in salaries and wages, but also for minimum increases.

[Question] In its wage agreement, the Metal Workers Union gave up on the minimum increase for the lowest wage earning group. Are you also willing to make do with a small, one-time settlement?

[Answer] The Metal Workers pact has no bearing on the wage demands we will recommend. Their pact furnishes us with a guidance, but not with hard-and-fast figures.

[Question] Your union calls the DM 180 minimum a "social factor." But many people see in it your attempt, pursued over a number of years, at reaching a uniform pay scale for garbage collectors and ministerial counsellors. Is that what you are after?

[Answer] That is utter nonsense. The difference in pay between ministerial counsellors, other highly paid officials and skilled workers in the public service sector has increased appreciably from the end of the sixties to the present. The ideologists who speak of the dangers of egalitarianism neglect to say or to admit what happens when one always institutes percentage rises and nothing else. Is there in fact any reason for leaving a salary and wage spread unchanged for all time, once it has been set? Under certain conditions it must be subject to a social adjustment. It is only people who solely think in terms of advancement and status who consider this approach to be egalitarian or inefficient.

[Question] Your wage policy has resulted in cleaning women becoming too expensive for the city halls and schools. The Economics Minister for Lower Saxony Birgit Breuel (CDU) has therefore suggested that some public services be taken over by private firms.

[Answer] This is another way of saying that Mrs Breuel has come out for exploiting the cleaning women.

[Question] Must the State really be responsible for cleaning city hall windows and the slaughtering of pigs in the public slaughterhouses?

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[Answer] Public servants see no reason to give private firms an opportunity to feather their nest or to make easy money by providing office cleaning services. It would hurt the employees involved. They would lose their livelihood and their social security. Furthermore, one can prove that service to the public does not improve, if private firms are given the job. Most of the time, in fact, the opposite is true.

[Question] A public sector job is a good thing— for whoever has one. Why are you not more consistent and demand that all privately rendered services be nationalized? Why not turn all Germans into public servants and have them join your union?

[Answer] We do not advocate any nonsense such as this. We are not interested in expanding the public sector at any price; but it is more sensible to institute certain improvements in public service rather than to use additional tax revenues to pay for unemployment benefits.

[Question] Your union is weighing the question of whether to come to the aid of other DGB member unions by staging sympathy strikes in case of renewed lockouts by management. This might lead to permanent labor unrest in the public sector.

[Answer] We consider lockouts to be more serious than a mere continuation of the fight against labor by other means. Lockouts tend to destroy the laboriously achieved equilibrium between the parties to collective bargaining. That is why it might become necessary to exercise practical solidarity.

[Question] The Federal Labor Court will hand down a ruling on the legality of lockouts in a few weeks. What are your union's plans in the event the ruling does not turn out to its liking?

[Answer] I will take a stand on the ruling once it is available.

[Question] Your union does not have much to worry about. Public sector management does not resort to lockouts. But would you go on strike in support of the metal workers?

[Answer] Not in their support, but along with them. If a lockout should pose a threat to the existence of the Metal Workers Union, we would not leave them in the lurch. We will not stand idly by, if DGB unions are incapacitated or if they are elbowed out of the social power structure of the FRG.

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[Question] You are considered to be the DGB's foreign minister. As early as 1965, long before detente got underway, you established contact with the Soviet Union. Can you still afford to keep up your contacts to the East now ?

[Answer] We are not about to put our relations to the Warsaw Pact labor unions in the deep freeze; we will intensify them, if need be. Meetings between unions can also help improve the climate for detente.

[Question] The DGB Postal Workers Union has sounded the charge against DKP functionaries. The Trade, Banks and Insurance Union is denying the charge of its being communist-infiltrated. The presidium of the Chemical Workers Union is mounting a campaign against left wingers. How does your union defend itself against communists within its ranks ?

[Answer] We accept communists as members as long as they comply with our statutes. But I will not have communist doctrines serve as the basis of educational work within the union. Nor will we permit the history of the labor movement be falsified by communists or misinterpreted by Trojan asses.

[Question] How much influence would you say the DKP wields in the unions ?

[Answer] Neither the DKP, nor the K-groups are of any significance whatever.

[Question] Does that mean that the DGB is merely mounting mock campaigns on a large scale ?

[Answer] The Communist issue was carried into the unions from the outside...

[Question] ...and gladly taken up by them ?

[Answer] That is not true. Besides, one should not throw all those who call themselves Communists into one pot. There is no danger of any union being taken over by the communists.

[Question] Your union's annual meeting this summer takes place in the midst of the election campaign. Do you intend to provide Chancellor Schmidt ---with whom you laid the foundations for political youth work in Hamburg after the war--- with a forum to boost government policy at that time ?

[Answer] I hope that the Chancellor will be speaking on behalf of the government at that meeting.

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[Question] Will you invite Strauss to speak, too ?

[Answer] I don't see why. The spokesman for the opposition in the Bundestag is Helmut Kohl. And he is the one we invited.

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COUNTRY SECTION

FRANCE

NEW METHODS FOR SONOBUOY DETECTION OF SUBMARINES PROPOSED

Paris AIR & COSMOS in French 19 Jan 80 pp 26-27

[Article by Gerard Collin: "Thomson-CSF Built Means of Maritime Surveillance"]

[Text] Sonar submarine detection is still an essential weapon in a military context, which is all the more interesting because submarines are rather helpless against airplanes.

Thomson-CSF proposes two types of sonobuoys, designated TSM 8010 and TSM 8020, which have the following characteristics in common. The buoys are launched from a plane or helicopter and because of an aerodynamic breaking system, reach the surface at a low velocity (less than 25 meters per second). The impact deploys a sonar collector called a "hydrophone." It detects sounds in a frequency band from 10 to 15,000 Hz, limited to 3,000 Hz in the case of goniometric reception, which cannot only detect, but also pinpoint the bearing of the sound source; that is, the submarine (or ship). On telecommand, the buoy can also emit a sound signal and measure the distance to the submarine by timing the round trip response of the reflected echo, based on the speed of sound in sea water. Thus the echo is localized in two dimensions, which allows more precise guidance of the weapons (torpedoes). This signal is emitted at the last moment (just before the attack), so as not to alert the submarine too soon (which indeed is itself listening for local sound emissions).

The hydrophone is immersed at the end of an electric cable at 20 or 100 meters, this depth being chosen as a function of the local conditions for sound propagation in the sea. The conditions are made known by passive gauging buoys which pick up the level of background acoustical sea noise, as well as by the bathythermal profile, which determines the local propagation of sound.

The buoys' detection range is about 10 km (active mode) or 30 km in the passive mode. The sound signals received by the buoys are retransmitted to the plane or helicopter by VHF, on one of the 99 VHF channels spaced at 375 KHz intervals between 136 MHz and 175 MHz. The telecommand to activate the buoys (to measure distance) is given by a UHF air-sea link. The energy

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supply is from a battery primable with sea water or lithium. The storage shelf life is at least 5 years. The operational period can be chosen to be 1, 3, or 8 hours, after which the buoy automatically scuttles itself.

TSM 8010 and 8020 Buoys

The two types of buoys proposed by Thomson-CSF are established on the same principles previously mentioned, but the essential difference is size. The 8020 buoy is effectively three times smaller than the 8010 buoy.

The TSM 8010 comes in a cylindrical form with the following dimensions: diameter, 124 mm; height, 914 mm; weight, 8 kg. The upper half of the buoy constitutes the float. Braking on the descent is effected by a rotochute, which is jettisoned on impact when the VHF antenna is erected.

The TSM 8020 buoy is distinctly smaller (same diameter of 124 mm for a height of 346 mm). Its weight is only 4 kg. The TSM 8020's float is a biconical balloon which inflates when it leaves the launching tube. It slows the descent by channeling the aerodynamic flow, regularizing and stabilizing the descent. The VHF antenna is erected inside this balloon. So this buoy does not need a parachute, and the electronics of this buoy are also more modern and more compact than those of the 8010. It comprises, as does the 8010, a hydrophonic reception preamplifier, a BF filter with amplifier, a VHF transmitter, and the UHF transponder to determine distance.

Use of the signals gathered by the buoys is made on board the airplane or ASM helicopter, after the VHF signals are transmitted by the buoys. Such a system has been developed by Thomson-CSF to equip ANG (Atlantic New Generation) under the name SADANG (ANG's acoustical system).

The task of the airplane system (designated TSM 8210), such as that on ANG, is rather complex. It includes VHF reception on 99 channels; audio detection; echo detection, echo extraction from the background noise, spectral analysis of it, correlation of sources between buoys; pinpointing sources by bearing (passive buoys) and by distance (active buoys), which includes finding the positions of the buoys relative to the airplane with the aid of the plane's V/UHF radiocompass and recalculations; UHF telecommand to the buoys; and recording the echoes and presentation of the tactical situation on a cathode screen.

The signals received are treated by computers (CIMSA 15M/125 for example), which are responsible for rapid Fourier transformation calculations, looking for correlations, and localization.

The TSM 8210 proposed by Thomson-CSF is designed in a modular fashion with modern techniques (LSI, cathode tubes, microprocessors, etc.). It is designed as much for application on light airplanes as for helicopters; those other than ANG being the Mystere 20 Guardian, the Fokker F27, the Embraer EMB 115, the CASA 112, the Puma 332, the Dauphin 365 N, etc. The typical total weight is 120 kg, and uses about 1,200 watts.

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Radar Detectors

The panoply of modern enemy detection units also includes the means to listen in on and analyze radar transmissions. Thomson-CSF proposes for this, among others, the TMV 026 assembly, consisting of a radar detector DR 2000 and DALIA (alert, analysis and automatic identification of received signals).

The principles of radar detection are well known (see in particular AIR & COSMOS no 793 p 49). Let us simply review the main characteristics of DR 2000 and DALIA. The DR 2000 with direct reception detection covers 360° with 6 goniometric antennas and 1 omnidirectional antenna, S band to Ku band, which is 2.5 to 18 GHz. The total weight of the antennas and receiver unit is about 50 kg. The DALIA 500 analyzes the parameters of the transmissions it receives and numerically displays the results (PRF, impulse size, frequency, jitter, sweep period, type of sweep). It has a file of 500 to 1,000 radar signatures and weighs about 30 kg. The Thomson-CSF radar detection equipment is already on the maritime patrol planes of seven countries, including France and the FRG.

There were 180 orders for the DR 2000, with 120 already in use. Sixty-five models of the DALIA 500 have been ordered, of which 35 are now in service. The most important current project concerns, still for the maritime patrol, the ANG planes and the modernized Breguet-Alizes (two antennas under each wing and two under the fuselage).

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COUNTRY SECTION

SPAIN

HERRI BATASUNA COALITION REPORTEDLY UNDER INTERNAL STRESS

Madrid CAMBIO 16 in Spanish 24 Feb 80 p 25

[Excerpt] The crisis prompted by opposing viewpoints among the four political forces that make up Herri Batasuna could cause a number of factions to break with the coalition in the midst of the election campaign.

The Crisis in Herri Batasuna (HB)

As the political parties were concluding their preparations for the campaign, observers focused their attention on the internal crisis in Herri Batasuna. There are those who already describe the crisis as a breakup. The four component parties have had sharp disagreements in drawing up the lists of candidates and also with regard to the political line it should pursue after 9 March; thus, it is likely that a united HB will not be running in the upcoming elections.

LAIA [Revolutionary Party of Patriotic Workers] might leave HB for good. It will apparently explain its reasons publicly at a press conference a few days before the elections. LAIA, which was expelled from the KAS [Patriotic Socialist Coordination] for its divergent political activities, is currently proposing that "it is now time to create a Basque Communist Party that will be situated on the political spectrum between the populist radicalism of HASI [Revolutionary Popular Socialist Party] and the Eurocommunism of EIA [Party for the Basque Revolution]."

Several independent factions in HB have apparently welcomed this initiative by LAIA, and in fact discussions have already begun on the formation of this party on the basis of historic LAIA documents, as well as other Marxist-Leninist contributions, including the ideological manifesto of EIA.

A "renovated" LAIA would see its ranks bolstered by factions of Basque Trotskyites, a number of EIA dissidents who left the party after their defeat at last year's congress, and the Basque PTE

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[Spanish Labor Party], whose break with the ORT [Organization of Revolutionary Workers] is practically a fait accompli.

The LAB [Patriotic Workers Party] Congress will be another battle to be waged within HB. While those who identify most strongly with the politics of the military wing of the ETA [Basque Fatherland and Liberty Group] want this nationalist union to become part of the KAS, those who sympathize with the LAIA plan and even a number of HASI factions have expressed their desire that LAB remain "a revolutionary Basque union independent of any political line." The National Secretariat of LAB, which met last week, reaffirmed the stance of pursuing an independent line of action from the KAS.

As far as ESB [Basque Socialist Convergence] is concerned, its leaders are complaining about the way in which the majority faction of HB, HASI, drew up the lists of candidates for Parliament along with the independents. One ESB leader asserted: "We demand that the national board of HB issue its opinion on the beginning of this campaign." If the demand is not met, ESB could break with the coalition.

The national board of HB did not, however, make any decision in this regard, and we do not yet know what HB's ultimate decision will be.

For its part, ANV [Basque Nationalist Action], the fourth faction in the coalition, called for the voicing of criticism in the Parliament as long as they deemed it timely.

A possible breakup of Herri Batasuna could be delayed if the results of 9 March are satisfactory and if the majority party, HASI, with close ties to the militants, yields some of its power to the other forces. "It is contradictory," a former HB member commented, "for them to be participating in the Foral Parliament in Navarra and not to have taken a stand yet here with regard to an institution that will be really representative of the Basque people."

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COUNTRY SECTION

SPAIN

LABOR CONTRACTS SIGNED, STRIKES INCREASE

Madrid CAMBIO 16 in Spanish 24 Feb 80 pp 26, 27

[Text] Some strange labor union contract negotiations are taking place in 1980. In contrast to previous years, Workers Commissions (CCOO), the Communist union, is doing everything possible to prevent the contracts from being signed. Breaking with its previous practice, the employers' organization, which has always been inclined towards arbitration findings, is bent on signing contracts and granting wage boosts that the workers themselves regarded as well-nigh impossible to secure just a few weeks ago.

The explanation for these strange labor developments lies in the application of the Inter-Confederation Model Agreement (AMI), which the UGT [General Union of Workers] and the CEOE [Spanish Confederation of Business Organizations] signed early this year, with the USO [Workers Trade Union] joining in later and CCOO deciding to remain on the sidelines.

Since then, the former groups have strived to carry out the agreement, while the latter has done everything in its power to make it fail. The bottom line for January was a great many labor disputes, which, in spite of everything, were unable to prevent the successful application of the model agreement. As of 8 February a million and a half workers had signed their contracts. By the end of January the strikes had cost somewhat more than 17 billion pesetas in unreceived wages and lost output, according to data from the labor bulletin SEIS.

There was fierce ill-will between the Socialist and Communist unions, as relations were marked by threats, insults and, at times, violence. Lacking an alternative to the AMI, the CCOO leaders eventually relented in their campaign against the UGT after Santiago Carrillo announced his intention of improving relations with the Socialists.

Fernando Mendez, a UGT technician and one of the negotiators of the model agreement, summarized the situation as follows: "Last year,

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with 16 percent inflation and despite numerous strikes, we got an average wage hike of 13.8 percent. This year, with an estimated inflation rate of around 15 percent, we are getting wage hikes of 15.2 percent thanks to the model agreement."

In the view of the CEOE, the Workers Commissions, "in its eagerness to downgrade the model agreement, has tried to make January or, to put it more exactly, the start of the collective bargaining campaign, a 'time of conflict,' in a bid to show that the AMI, far from facilitating bargaining, causes conflict. Hence, it does not matter that the conflicts have nothing to do with either the model agreement or the contracts. They are trying to stage rallies and accumulate lost work hours."

The Socialist union's decision to go through with the contracts, even if it had to sign them by itself with the employers' association, accentuated the failure of the Communist organization, which was unable to prevent the collective bargaining under the model agreement from moving on to the provincial and sector levels. Thus, the UGT and CEOE had already signed such major contracts as, among others, the Madrid construction and metal workers contract and the chemicals and sugar contracts in the state sphere.

The CCOO reacted by inciting fresh tensions and attacking the pacts. But in both cases success is highly unlikely because the workers will have already received their wage hikes. Moreover, Marcelino Camacho's union runs the risk of sitting on the sidelines for 2 years in connection with every aspect of collective bargaining, which it could thwart only by off-and-on conflicts, with the danger that this will sap its strength in a time of crisis like now.

More than 30 million work hours were lost in January. Nevertheless, we should note that, in contrast, the number of strikers and the number of conflicts were down sharply from January 1979. These statistics indicate that the strike "pressure" was less even though they lasted longer. For the month as a whole, the Renfe and other public sector conflicts were particularly important because of the number of workers involved.

Quick Negotiations

In spite of the many hours that have been lost so far, in the view of specialists labor conflicts this year could well be down sharply from 1979, the record year for strikes.

Another major development that distinguishes the current collective bargaining from that of previous years is the rapidity with which the contracts are being signed. Perhaps never before have so many labor

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union contracts been signed during the first few weeks of the year. The bargaining with chemical, major department store, metal or construction workers, to cite the most important examples, used to drag on for months, with the resulting string of strikes.

Now that agreements have been signed, the conflicts are drawing to a close, and the failure of the CCOO in the strikes it called last week was the clearest proof of this.

Strikes in Spain

	January		Entire Year	
	1979	1980	1978	1979
Number of Strikes	293	149	1,356	1,789
Number of Strikers	865,239	587,486	3,633,004	5,752,304
Hours Lost to Strikes	21,996,617	33,625,923	128,738,478	171,067,049

Note: Data provided by the CEOE.

January 1980: Collective Bargaining

	Workers Affected
Total Contracts Signed (5 January to 8 February)	1,506,700
Signed outside the Model Agreement	25,353
Signed Alone by the UGT	729,600
Signed by Several Unions within the Framework of the Model Agreement	751,747

Note: Data provided by the UGT

Main Contracts Signed Without CCOO (as compared to CCOO demands)

	CCOO	Metal (Madrid) UGT-CEIM Contract
Wage Hike (percent)	16+1.7	16
Wage Review Base	Consumer Price Index (CPI)	6.75 CPI
Hours	1,923 a year	1,980 (1st year) 1,930 (2nd year)
Life (1)	1 year	2 years
Exempts Companies with 2 Years of Losses	No	Yes
Workers Affected		150,000

(1) 1 year for wage review and union rights.

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Chemicals (State)

	CCOO	UGT-FEIQUI Contract
Wage Hike (percent)	16	16
Wage Review Base	CPI	6.75 CPI
Hours	40 hour week	43 hours
Life (1)	1 year	2 years
Exempts Companies with 2 Years of Losses	No	Yes
Workers Affected	300,000	

Construction (Madrid)

	CCOO	UGT-AECOM Contract
Wage Hike (percent)	16	14
Wage Review Base	CPI	6.75 CPI
Hours	42	42
Life (1)	1 year	2 years
Exempts Companies with 2 Years of Losses	No	Yes
Workers Affected	100,000	

Sugar (State)

	CCOO	UGT-AGA Contract
Wage Hike (percent)	15	15
Wage Review Base	CPI	6.75 CPI
Hours	40	43 (1st year) 42 (2nd year)
Life (1)	1 year	2 years
Exempts Companies with 2 Years of Losses	No	Yes
Workers Affected	20,000	

Major Stores (State)

	CCOO	UGT-USO-FAGSA- ANGED Contract
Wage Hike (percent)	16.5	15
Wage Review Base	CPI	6.75 CPI
Hours	40	41.5 (1st year) 41 (2nd year)

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Life (1)	1 year	2 years
Exempts Companies with 2		
Years of Losses	No	Yes
Workers Affected	80,000	

Note: Data provided by Carlos Gomez (EL PAIS)

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COUNTRY SECTION

UNITED KINGDOM

UK CHANCELLOR OUTLINES NATIONAL BUDGET PLANS FOR 1980-1981

LD270837 London THE TIMES in English 27 Mar 80 pp 5-7 LD

[Apparent text of UK Chancellor of the Exchequer Geoffrey Howe 26 March House of Commons speech on UK National Budget for 1980-1981 Financial Year: "Tory Strategy for a Parliament"; subheads apparently inserted by THE TIMES; first graf is TIMES introduction]

[Text] Sir Geoffrey Howe, chancellor of the exchequer opened his budget speech by outlining the background against which it was set. He said:

In my budget speech last June, I said that the economic situation that we inherited was a difficult one. And I stressed that it would take time to check, and then reverse, Britain's long-run economic decline. Time, and resolute commitment to the right strategy, for a period of years ahead. It is important for that strategy to reflect the right lessons of years of disappointing economic performance.

Even in the 1950s and early 1960s our economy was lagging behind those of our competitors. But it was a period of low inflation and rising growth rates. Seen in retrospect, that period was something of a golden age. That was not, of course, the feeling at the time.

From the mid-60s onwards we became impatient to throw the resources of government into efforts to do better, quicker. In rapid succession we had a national plan for faster growth, devaluation, incomes policy, recurrent bouts of intervention in industry--and much else.

The increased scale of government borrowing from the mid-1970s as compared with the 1950s and 1960s is an example of the impatience to which I have referred. Governments became increasingly addicted to deficit spending.

This was particularly true of the United Kingdom at the time of the first world oil crisis. Memories of the monetary and inflationary implications of what the government did then are still vivid.

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Eventually it began to be recognized, as indeed the leader of the opposition said in 1976, that we can no longer spend our way out of recession. But although this breakthrough of realism had begun, the change in attitude has not got far enough. Not everyone has yet accepted that public expenditure cannot go on growing, while the economy stagnates.

Those years of often hectic government action were equally notable for other things, that did not receive the attention they deserved. As well as misjudging the importance of money supply and its proper control, we often paid no more than lip service to the role of private enterprise, and to the importance of economic change as an agent of prosperity. Successive governments acknowledged the need to reduce the power and privilege of organized labour. But in the event, its ability to damage the economy has increased.

The outcome is familiar to us all. Our underlying rate of growth has become steadily weaker.

At the same time, we have come almost to tolerate inflation at rates which would have horrified any earlier generation.

The measures taken following the agreement with the international monetary fund in 1976 provided a brief respite. The public sector borrowing requirement fell, monetary growth declined, pay settlements moderated. The inflation rate came down in 1977 and 1978. But the lesson was not well enough learnt.

The money supply was again showed to expand too fast, partly through excessive intervention in the foreign exchange markets. Fiscal policy was eased and the situation deteriorated again.

During the 18 months to last June the underlying growth rate of 3 million pounds sterling was nearly 15 percent a year. This compares with the much more modest rate of about 8 percent in the year after the IMF measures.

The incomes policy of the previous government had collapsed. Earnings also grew by at least 15 percent a year. Not surprisingly, it was consumer spending which gained most from this combination of monetary expansion, tax cuts, and high pay settlements.

In the year before the election, the volume of consumer spending rose by more than 5 percent a year. That was much too good to last.

Tackling the Inheritance

There was indeed a big price to pay for that short burst of apparent prosperity. Production failed to respond to the surge in demand. Imports, especially of manufactures, rose sharply. The current balance of payments, in surplus after the IMF agreement and helped by North Sea Oil, moved back into deficit, and inflation moved sharply upward.

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Last year we made an important start on tackling that inheritance. We set about reducing the rate of monetary growth. We achieved large reductions in dangerously oversize public spending plans.

We reduced the share of government spending and borrowing in the nation's output. And, when, last November, the money target looked like being exceeded, we acted promptly and decisively.

We have removed many unnecessary controls and obstacles to enterprise and individual effort: controls on pay, prices, dividends; and on foreign exchange, which can now be used freely to acquire productive assets overseas, to the benefit of our exports and invisible earnings alike.

My first budget switched the tax burden from earnings to spending--and greatly reduced oppressive tax burdens on enterprise.

But during the year that has just ended we have had to contend with a further major increase in world oil prices, and with a substantial rise in the price of other commodities. The strength of sterling has to some extent cushioned their impact on domestic inflation.

Even so, the price of oil and other inputs to manufacturing industry has risen by 41 percent since the beginning of 1979.

The rise in the oil price has also had severe effects on the world prospect generally. The outlook in the coming year is for a significant slowdown in growth and a worsening of inflation everywhere.

The year-on-year increase in consumer prices of OECD countries rose from about 10 percent on average in mid-1979 to 14 percent by the beginning of 1980. Every major country is demonstrating its determination to resist this inflation by adopting a firm monetary and fiscal policy. The inevitable immediate result is lower output and higher interest rates.

Since early last summer rates have risen by 6 percentage points on average in the major industrial countries. This is much the same as in the United Kingdom over the same period.

[LD270935] The increase has been even more marked where the dollar is concerned. Between May last year and the end of last week euro-dollar three month rates rose by over 8 percent to 19 percent.

That is part of the background against which to judge the poor short-term economic outlook for the United Kingdom. The treasury projections published today suggest that output may fall in 1980 by up to 2.5 percent. This is more or less in line with outside forecasts.

It is important to understand the significance of this recession. There are some who argue, or at least seek to imply, that it is an entirely avoidable

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development. Something which need not be inflicted upon the British economy. Others seem almost happy to suggest that, so far from being avoidable, this recession is no more than a foretaste of much worse that is to come.

Some uniquely critical pessimists contrive to convey both impressions at the same time.

The right view to make is that it is in part a consequence of the weakness in world demand, in part a consequence of our own high inflation--still well in excess of the money supply target--and in part, perhaps most of all, a consequence of the long run decline of our economy. These influences are not insuperable.

We can most certainly get through the difficult year or two that lie immediately ahead. The important thing is not to allow the difficulties to prevent us setting our feet on the right long run path.

Financial Strategy

This is one of the reasons--although by no means the only one--why I intend to consolidate the start which I made last year, by publishing today the government's financial and monetary strategy for the medium term. This strategy is contained in Part II of the financial statement and budget report--better known, perhaps, as the red book.

This strategy is by no means to be confused with a national plan. (labour laughter). Labour MPs may well laugh--for it is concerned with only those things--very few of them--which the government does actually have within its power to control. The strategy sets out a path for public finance over the next few years. At its heart is a target for a steady declining growth of the money supply, for government spending and taxation which will underpin that objective.

It will be clear from what I have already said that the government continue to regard the fight against inflation as the first priority. It is an illusion to suppose that we have any real choice between defeating inflation and some other course. It is quite wrong to suppose that inflation is something with which only treasury ministers need to be concerned.

So long as it persists, economic stability and prosperity will continue to elude us. And so too will social coherence. Nothing, in the long run, could contribute more to the disintegration of society, and destruction of any sense of national unity, than continuing inflation. For inflation sets workers against workers, employer against employees, and sometimes even government against its own employees (labour interruption).

The violence of the picket lines, last winter's examples of hospital patients denied supplies and of the dead denied burial, would have been unthinkable 20 years ago. They reflect the social disintegration caused by inflation. This is why the conquest of inflation is so important.

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And in the defeat of inflation, monetary policy has an essential role to play. Other countries recognize this very clearly. They recognize too that sustained monetary restraint is not an easy, automatic or painless solution. But they are convinced it is essential. They are struggling to get back towards more balanced budgets, as must. They recognize, as we must, that inflation cannot persist in the long run unless it is accommodated by an excessive expansion of money and credit.

That is at the heart of what "monetarism" means in practice. It is a great pity that its practical, common sense importance has been so confused by arid, theoretical dispute. (labour laughter).

It should never have become a term of political abuse--least of all for use by those who have in the past claimed to make a virtue of practising it. (conservative cheers.)

It is an illusion then to suppose that there is any real alternative to the strategy I have outlined. Some commentators seek to blame our present difficulties on the deliberate pursuit by government of unnecessarily tough policies. That is totally to misunderstand the position.

Britain's present difficulties are so deep-seated and serious as to make tough policies inescapable. Relaxed monetary and budgetary policies might bring higher output, even higher living standards in the very short run--though even that is questionable.

But in reality they would simply fuel fresh inflation. Such policies would inevitably undermine the confidence of financial markets, industry, and consumers. The action which would then be necessary to deal with the ensuing crisis would, equally certainly, destroy jobs and cut living standards still further.

Restraint of the growth of money and credit is then essential, and it needs to be maintained over a considerable period of time in order to defeat inflation. That underlines the importance of the medium term financial strategy.

[LD270943] Lower Growth of Money Supply

This strategy, as I have said, sets out a four year path for monetary growth public spending and tax policies. I deal first with the monetary targets. By 1983-84, the last year covered by our spending plans, the target rate of growth of money supply will be reduced to around 6 percent--just half the rate of growth over the past year.

In keeping with that medium-term monetary objective, the target range for the growth of 3 million pounds sterling in the period to mid-April, 1981, will be 7 to 11 percent at an annual rate. The base for this will be the most recent published figures. The target will thus relate to the 14 months from mid-February.

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I am glad to say that monetary growth has already begun to slow down. In the first four months after the budget 3 million pounds sterling continued to grow at the excessive rate--over 14 percent--which we inherited, but in the succeeding four months it fell to an annual rate of 10 percent. Moreover, in the earlier period 3 million pounds sterling growth had been below that of other measures of the money supply.

Currently however, all the other measures, 1 million pounds sterling, total 3 million pounds sterling and the various indicators of wider liquidity, are growing less rapidly than 3 million pounds sterling. The narrow measure, 1 million pounds sterling, actually fell over the last four months.

So the turndown in the growth of 3 million pounds sterling probably understates the extent to which the measures in the last budget and those I took in November have already brought monetary growth under control.

Corset Not to be Extended

This year's target will consolidate the substantial slowdown in the underlying rate of growth. At the same time the governor and I have agreed--(labour laughter)--that the supplementary special deposits scheme--generally known as the "corset"--should not be extended beyond mid-June when the present guideline ends.

One of the effects of the corset has been to encourage the development of credit channels just outside the banking system, such as the purchase of bank acceptances by the private sector. This process will be reversed to some extent when the corset ends.

So 3 million pounds sterling will be swollen as earlier distortions unwind. The increase in 3 million pounds sterling on this account will not however signal a change in underlying monetary conditions. The scale of this exceptional increase cannot be precisely measured or predicted, and we will need to assess its effect both as it occurs and when the target is rolled forward in the autumn.

If, as I hope, it can be accommodated within the target I have just announced, that will point to a further slowing down of monetary growth.

By any standards this is a firm monetary policy. But it is an essential response to the inflation rate. As I have shown earlier, there is nothing unique to this country about what I have proposed. Other countries faced with similar problems have adopted similar remedies, as is shown by the determined measures introduced by the United States a fortnight ago.

It goes without saying that to accompany these policies we need to have efficient methods of monetary control. We already have the means to meet our medium term objectives. The green paper on monetary base control which I laid before the house last week will provide a basis for public discussion of how to improve control over short periods. The government and I hope to hear a wide range of views before deciding whether any further changes should be made.

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The recent pressure on companies has resulted in a strong demand for bank lending, which has contributed to the upward pressure on both money supply and short term interest rates.

I am sure banks and their customers would be well advised, in the difficult economic conditions foreseen for 1980-81, to be cautious about the scale of their lending and borrowing. When the growth of bank lending falls back this will add to the downward pressure on interest rates from today's measures.

Large Cut in Public Sector Borrowing Requirement (PSBR)

But it is not intended to achieve this reduction in monetary growth by excessive reliance on interest rates. The government's financial strategy, therefore, plans a substantial reduction over the medium term in government borrowing as a percentage of national income. (conservative cheers)

The relationship between the budget deficit and the growth of money supply is not a simple one. It is erratic from year to year. But there is no doubt of its importance, or that government borrowing has made a major contribution to the excessive growth of the money supply in recent years.

The consequence of excessive borrowing has been high nominal interest rates and, in capital markets, the crowding out of business by the state. This has held back investment. From now on however, given the shape of the government's plans for public expenditure, the budget deficit should be reduced progressively to between one and two percent of output. This would be a little below the average in the 1960s.

During a recession, of course, it is widely recognized that the budget deficit is increased by low tax receipts and high government spending.

[LD270957] Some increase in the ratio of the PSBR to the national income may be consistent with the maintenance of a given monetary target and without itself requiring increases in interest rates. But in practice public sector borrowing has been too high during the last two years, as experience has shown. That less, and the continuing high inflation rate make a big cut in the underlying deficit imperative this year.

In 1977-78, following the agreement with the international monetary fund, the public sector borrowing requirement as a percentage of output was 3.75 percent of national income.

In 1978-79, after the last government's relaxation of policy it rose to 5.5 percent.

In 1979-80 it has probably been around 4.75 percent; in money terms the latest estimate is just over 9 billion pounds.

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Despite the expectation of recession, experience shows that it would be wrong to keep the actual PSBR at its current level as a percentage of national income. This could not be reconciled with the monetary target or with the counter-inflationary objectives of the medium term strategy. We must not make the mistake of promising to correct the under-lying weakness at some time in the future--but failing to take the necessary steps today.

The monetary target that I have announced for the coming year will involve a substantial further slowdown in underlying monetary growth. If we are to meet that target without putting too much of the burden on interest rates, a public sector borrowing requirement of not more than 4 percent of national income in 1980-81 is appropriate. This would imply a money figure for the PSBR next year of not more than about 8.5 billion pounds.

Today's proposals will leave the total yield from taxation not much changed. Taking account of the effect of inflation over the last year and of the government's public expenditure decisions. This represents a tightening of the budgetary stance. Indeed in the absence of the substantial cuts in public expenditure since my last budget, a very large increase in the burden of taxation would have been unavoidable.

The government's spending plans are published today in the public expenditure white paper. They are essential to the financial strategy. The path we now plan contrasts very sharply with past experience and intentions. We are not making panic cuts affecting the next year or two, leaving the long-term trend unaltered. We are not just reducing planned increases.

The level of spending is actually planned to fall steadily throughout the next four years. Without these economies, a coherent policy to reduce inflation would be unattainable.

Over the next few years receipts of taxes and royalties from North Sea operations will make an increasing contribution to government revenue. Even so, the growth of revenue over the medium term is broadly dependent upon the growth of national output. This is conditioned by the growth of productivity, the growth of the world economy, and the speed with which we reduce inflation.

Since the first oil crisis in 1973, there has been a world wide decline in rates of economic growth. The growth of output in the United Kingdom has been less than half of its previous rate, inspite of the contribution of North Sea oil. The recent rise in oil prices makes it unwise to assume that world and United Kingdom output will expand faster over the next few years than in the past five.

The projections for tax revenue in the medium term strategy therefore rest on the fairly cautious assumption that, after the recession forecast for 1980 the economy will grow by an average of only 1 percent a year up to 1983-84.

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This will undoubtedly seem rather modest. The economy should be capable of growing faster than this. But we must learn from recent history. In the past, governments have almost always based their spending plans on improbably high growth rates which were well above those achieved.

To plan spending on over-optimistic growth assumptions can involve actions which, in the event, prevent that forecast growth being achieved. We should only take credit for improved growth performance once we have firm evidence that it has taken root.

One Percent a Year in Growth

So in preparing projections of the future of the economy, we must adopt a cautious approach. The government cannot dictate the rate of growth of output. It is only as inflation subsides that there will be secure foundations for sustainable growth.

The 1 percent a year we are assuming is the same rate as was achieved in the years 1973 to 1979. We cannot prudently assume that we shall do better over the next few years, though we have every reason to hope that we can. The sooner inflation comes down, the faster the rate of growth we can achieve within the monetary framework.

A firm monetary policy, as the past year has shown, contributes to a strong exchange rate. Furthermore sterling now has some of the characteristics of a petro-currency. A strong exchange rate plays an important part in diminishing inflationary pressures. But at the same time it obliges United Kingdom industry to restrain costs and improve its competitiveness. That requires a fundamental change in attitudes.

Over the years we have sunk into an unquestioning "cost plus" mentality, where the impression is given that whatever wage increases are agreed can simply be passed on to customers. But exporters have been learning that their prices must be related as closely to their competitors' prices as to their own costs.

The same lesson has to be learned in pay negotiations. Just as exporters must base their prices on what their customers will pay, so pay settlements must be based upon what companies can afford while staying competitive.

[LD271005] There is a need for a much greater public awareness of the link between pay increases, price inflation and unemployment. This subject has already come up in the National Economic Development Council (NEDC) forum, and we shall be returning to it again at future meetings.

The more pay settlements can be moderated, the lower the transitional costs of the fight against inflation in terms of bankruptcies, lost production and reduced employment.

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It is still a widespread, if tacit, assumption in too many places that if wages and prices go up fast, the exchange rate will fall before long and restore any loss of competitiveness. This rests, not unreasonably, on repeated experience.

But the authorities are no longer in a position to engineer a major reduction in the exchange rate in order to bail out those who have sought and granted excessive pay claims. Even if we could do this, it would create more inflation before long.

It is not only in collective bargaining and selling overseas that we must move away from a blind attachment to cost plus and the idea of full protection against retail price index (RPI) movements. The problem goes far wider.

There are many parts of our economic life where it is right to take some account of inflation. But a very damaging rigidity has grown up in how we do it. For example, until recently public spending programmes were controlled entirely in volume terms without regard to changes in their costs.

With cash limits an important step was taken away from an increasingly harmful practice. Again it has been assumed that the real value of all social security benefits must always be maintained whether production and incomes go up or down. This places the entire burden of adjustment on to the worker population.

They, for their part, have responded by pressing for the income tax system to be fully indexed--and by adding to their demands for higher wages. Inevitably, a substantial part of the burden, of adjustment then falls on profits.

So long as inflation persists, there has to be some measure of price protection in relaxation to social benefits and taxation in a civilized society. But full protection for some is only possible at the expense of others. The proposals in this budget recognize both the need to offset some of the effects of inflation, and the fact that it is impossible to maintain the real value of all personal incomes when total national income is likely to fall.

If we are to master inflation, the adjustments required of all of us are difficult, but perfectly feasible.

We should beware of the fashionable but misleading parallels with what happened in 1974 and 1975. They are merely a recipe for self-fulfilling pessimism.

After the oil price increases of 1973-74, our inflation went on rising for two years, reaching a peak year-on-year rate of 26 percent in the autumn of 1975. The oil price increases in the second half of 1979 have been just as large. But this time we have a good decline in the latter part of 1980.

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Monetary growth is now under better control. Unlike then, we have no backlog of inflation in the system caused by earlier falls in sterling. There are encouraging signs of realism in private sector wages settlements.

This is clear, for example, from information provided by the conference of British industry (CBI) data bank, and from evidence of settlements linked to genuine productivity deals. The underlying rate of inflation over the last six months is well below the present year-on-year rate.

Projections of growth and tax revenue can only be illustrative, and imprecise but those published today show that for the first time the government of the day have coherent policies for money, tax and spending for the medium term.

Sensible Public Spending

There should be scope simultaneously to reduce government borrowing and to lower taxes, including progress towards a 25-percent rate of income tax. (conservative cheers) Publication of this strategy will assist decision-makers throughout the economy to work with the grain of the government's policy, understanding the limits it imposes and the opportunities it presents. This strategy is the best foundation for higher growth, fuller employment and a return to rising living standards.

At the heart of the medium-term strategy is the need to return to a sensible level of public spending and to see taxes and government borrowing reduced. The spending plans which this government inherited were too high, and were set to grow considerably faster than production.

Most aspects of public spending are worthwhile, if the nation can afford them. But, too often, we have endorsed plans for rising expenditure that we cannot afford. In the last 20 years the ratio of public expenditure to GDP has risen by a quarter.

It would be all too easy for this ratio to go on rising indefinitely, unless we addressed ourselves to fundamentals. That is what we have done in what has been the most far-reaching review of medium-term expenditure plans since they began 20 years ago. This review is crucial to the strategy.

Crucial to success in reducing the PSBR, lowering interest rates, and bringing down inflation. And crucial if we are to find room for lightening the tax burden and so to provide scope and encouragement for enterprise and initiative. The results are set out in the public expenditure white paper published today.

[LD271013] Publication of plans for expenditure at the same time as those for taxation has long been widely favoured. The happy coincidence of the two on this occasion is mainly due to the time needed to review inherited expenditure plans fully. But it has enabled me to present together the

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government's strategy for expenditure, taxation and the money supply in a way not attempted by my predecessors.

I should say that one other result of this coincidence is that I have an unusually large number of tax and expenditure proposals to announce in this speech.

The plans in the white paper show, for the first time ever a progressive reduction in total expenditure throughout the life-time of this parliament. By 1982-83 they are over 11.5 percent below those inherited from the previous government. This reduction works out at over 11 billion pounds sterling at today's prices.

Progressive Reduction

Expenditure in 1983-84 is planned to be about 4 percent lower in real terms than in 1979-80. The effect will be a marked shift in the burdens imposed by the government and in the balance between the public and private sectors. Above all we shall have set the volume of public spending on the right course.

We shall be creating a climate much more favourable to economic growth.
(conservative cheers)

In the coming year, 1980-81, the reduction from the amount our predecessors planned to spend is over 5 billion pounds sterling at today's prices, roughly equivalent to the revenue raised by an extra 7 pence on the basic rate of income tax. Since the white paper published in November, further net reductions of over 900 million pounds sterling have been decided for the coming year.

The government have thought it prudent, however, given present economic uncertainties, to set aside 325 million pounds sterling of this for the contingency reserve. It should not be necessary to spend it all. These decisions reduced planned spending in 1980-81 by at least 575 million pounds sterling at current prices. Special sales of assets planned for 1980-81 remain at the 500 million pounds sterling mentioned in the government white paper. This compares with the 1 billion pounds sterling target for 1979-80 announced in my budget last June. In the event a total very close to 1 billion pounds sterling has been raised in this way.

In today's circumstances any government would have to check the size and growth of public spending. This does not mean, and has not meant that public expenditure should be cut indiscriminately. Our choices have been guided by the belief that government should provide efficiently and realistically those services which it alone is able, and best fitted, to provide. The role of the state can sensibly be reduced where it has taken over what private initiative can better achieve; and where it has been reducing incentives, increasing bureaucracy and distorting markets.

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Only the state can provide adequately for the defense of its citizens against external and internal threats. The armed forces and police need to be strengthened and improved. Expenditure on defence, law and order therefore, is planned to grow--defence by 3 percent a year in real terms up to the end of the period, law and order by 2 percent a year.

Spending on health will continue to grow exactly as planned by the last government, at about 2 percent a year over the period. The cost of this increase will be partly offset by increases in charges, including in particular a 1 pound sterling [medical] prescription charge next December. (loud labour interruptions and protests.)

These charges will yield in total about 30 million pounds sterling in a full year. The present wide range of exemptions is maintained so that, for instance, the elderly, children under 16 and those on low incomes will be unaffected.

But support from the taxpayer for private and nationalized industries is reduced. Provision for housing is reduced. This reflects both the local authorities on reduction in building programs and what the nation can afford in public sector housing investment and subsidies.

The reduction in the education programme reflects a fair and sensible response to falling school rolls and a continuation of the economies to be made in 1980-81. Whilst the number of pupils is expected to fall by about 13 percent between 1979-80 and 1983-84, spending on schools is planned to fall by only 6 percent. So spending for each pupil will increase in real terms.

The aid programme is also reduced, but remains substantial. It will now be in line with what a country in our present circumstances can afford.

Social security presents particular problems. This programme has been responsible for three-quarters of the total increase in programmes since 1973-74. This government, no less than its predecessors, is committed to maintaining a social security structure which protects the weakest and most vulnerable in our society.

But social security is now a quarter of total public expenditure and still growing. It cannot be exempt from measures to restrain its growth where these can reasonably be made.

Notwithstanding the changes the government are making, spending on social security is still expected to increase by nearly 4 percent between 1979-80 and 1983-84. I shall be returning to this area in more detail in a few moments.

There are those who sometimes speak as if all our problems with public expenditure could be solved by reducing bureaucracy while leaving subsidies and services untouched.

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The process of securing economy cannot be as painless as that. It is easy to forget that the entire cost of the civil service represents only one-fifteenth of public expenditure.

[LD271025] Even so, it represents a substantial cost. At the beginning of this administration the civil service was larger by 40,000 than when we left office. Between 1974 and 1979 local government manpower had increased by over 200,000. Total public service manpower had increased by nearly half a million.

It is no criticism of public servants to say that this could not go on. If it were to, then by 1983 over a fifth of the labour force would be employed in the public services.

Action has already been taken. The last government made financial provision for a civil service of 748,000 at the end of this month. By 1 April 1981--12 months later--the civil service will be smaller than that by at least 50,000.

I cannot yet predict what the size of the civil service will be by the end of the present parliament. But we have made a good start. And the revenue departments, I am glad to say, have been playing their full part in this process.

The numbers employed in those departments had grown from 87,000 in 1970 to 113,000 when we took office. At that rate, by the year 2000 there would be 175,000 tax collectors, which is more than there are soldiers in the army.

Council Staffs Must Shrink

That process of expansion is now being reversed. In 12 months' time the staff of the revenue departments will be over 10,000 fewer than when we took office--a reduction of about 8.5 percent. The staff savings from my budget last year amounted to some 1,400. And the tax measures I am proposing this year will in themselves enable me to make eventual net savings of 1,700 staff in my departments.

So far as the local authorities are concerned, the secretary of state for the environment and other ministers have been taking steps that will help local authorities to reduce their manpower. There is now less detailed interference by central government--fewer circulars and returns--and a large number of statutory controls are being removed.

But as the secretary of state for the environment pointed out on Monday, progress has been disappointingly slow. The planned reductions in expenditure imply a substantial reduction in staff over the next four years. The local authorities must now give high priority achieving this.

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The reductions I have so far described are in the volume of public spending. We must also pay full regard to what it costs. Some of the reasons were eloquently explained to the house by Mr Denis Healey on 25 January 1979 when he was still chancellor.

On that occasion, Mr Healey made an assumption that earnings in the 1978-79 pay round might increase by 15 percent. He said that this assumption, which he described as pessimistic, would increase the cost of central government and local authority services by 1 billion pounds each in 1979-80 and raise the costs of the nationalized industries by nearly 1 billion pounds. "Faced with such increases", he said, "the government would be compelled to seek reductions in the volume of public expenditure". He emphasised that this would inevitably increase unemployment.

We now know that Mr Healey's assumption about the likely growth in earnings proved all too true. Moreover his own administration left behind some large post-dated cheques. The Clegg awards are expected to cost something like 2 billion pounds in 1980-81; and the full year effect of other comparability awards in the civil service will add a further 1 billion pounds to that.

Public services and employment in them cannot escape the effects of inflation. Cash limits are the crucial instrument for ensuring that the costs of public expenditure do not run out of control.

For central government expenditure most of the cash limits for 1980-81 are contained in the parliamentary estimates, published today. As already announced they are based on provision for current cost increases of 14 percent. When the estimates were being prepared, this seemed an adequate allowance for inflation between 1979-80 and 1980-81.

The projection I am publishing today suggests, in line with those of most outside forecasters, that inflation may be a point or two higher. To increase the provision in the cash limits to accommodate the higher forecast of cost increases would be wrong.

That would simply be to condone and encourage inflation. The difference between the provision in the cash limits published today and full provision for the inflation now forecast would be about 700 million pounds. There should be scope to absorb such higher costs through greater efficiency. It will not be easy. But the unacceptable alternatives would be to cut services or increase taxes.

In an important respect the reductions announced today are not complete. This country carries a heavy burden of government payments overseas: first, spending on defence, especially the British army of the Rhine; second, our net contribution to the European community; and third, overseas aid.

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Relative to our GNP we spend more across the exchanges on defence than any of our NATO partners; we make far the largest net contributions to the EEC budget; (labour interruptions) and our aid programme is larger than those of the United States, Japan or Germany.

One result of the growth of these transfers has been to offset a large part of our substantial private sector earnings in invisible account of the balance of payments.

Of these transfers overseas the fastest growing and least justified has been our large net contribution to the community budget.

[LD271027] Although ranking seventh out of the nine in GNP per head, we are now making the largest net contribution. The latest estimates by the European commission again show that our net contribution is much larger than Germany's, whose GNP per head is twice that of the United Kingdom; and that most, if not all, of the other five countries with a higher GNP per head than ourselves are net beneficiaries of the budget.

We also transfer substantial resources to our partners outside the budget through the artificially high prices imposed by the community's agricultural policy.

The white paper figures make no allowance for the reductions we are negotiating in the United Kingdom's net contribution to the budget of the European community. Pending a satisfactory conclusion to those negotiations, they include the full estimated costs under present arrangements.

If those arrangements are not changed, the likely costs will rise to more than 2 billion pounds at today's prices by 1983-84. A successful outcome to the negotiations is of the highest importance to our medium term fiscal and monetary strategy and to the success of our attack on inflation.

The government's determination to redress the present unacceptable situation has the support of the entire house.

I have already stressed the scale and importance of the social security programme. In the coming year it will absorb a quarter of public spending and cost about 20 billion pounds which works out at no less than 1,000 pounds a year for every household in the country. Its volume has grown by about 50 percent in the last 10 years, allowing both for inflation and the switch from family allowances and child tax allowance to child benefit.

This is more than three times the 15 percent increase in GDP over the same period. Some of this growth is accounted for by an increase in the number of beneficiaries, particularly the elderly. But much of it has come about not through any conscious decision but because the level and scope of benefits have been improved in anticipation of a growth in output which has not been achieved. It is a striking example of our capacity for spending money before it has been earned.

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Any effort to curb the growth of public spending must, therefore, include this programme. One must recognize the differences between its various components. The programme covers a big range of benefits and beneficiaries.

Retirement Pensions

Any changes must reconcile the need, which we all recognize, to protect the most vulnerable members of society, with the need to ensure that scarce resources are distributed in a way which does not unduly inhibit the creation of wealth. Standards of living and the benefits people are willing to finance must depend on a healthy, growing economy.

Any civilized society has a special obligation to those who have completed their working life. The standard rate of retirement pension will accordingly be increased next November by 6.15 pounds to 43.45 for a married couple and by 3.85 to 27.15 for a single person. These increases fully reflect the government's estimate of the rise in prices between the last uprating and the next.

In addition, a 10-pound Christmas bonus will again be paid. Moreover, we propose substantial extra help for poorer consumers with their fuel costs per year. Much of this will go to the elderly. The secretary of state for social services (Mr Patrick Jenkin) will be giving details tomorrow.

Again any civilized society should provide a safety net below which a poor person's standard of living should not fall. We can all debate what is the proper level.

Should it be a relative level or, as Beveridge had contemplated, an absolute level, which seeks to meet the basic needs of a person and his family? These are difficult questions. The answers are not made any easier by the fact that the supplementary benefit scheme covers so many varied circumstances, with more than three million beneficiaries at any one time, ranging from the old and infirm to healthy young people capable of work.

But clearly no action we take should be at the expense of the really weak and needy. Accordingly we propose that supplementary benefit rates, too, will be increased next November in line with the projected level of prices. A large part of the additional help with fuel costs which I have just announced will also go to supplementary benefit recipients, particularly the old and those with young children.

Besides the old and the poor there are others with special needs. One-parent families face particular problems. We propose that the additional payments to them should go up from 2.50 to 3 pounds--an increase of 50 percent since the government took office. The disabled also face special difficulties. The mobility allowance will therefore go up by 2.50 pounds per week to 14.50 per week next November--again an increase of nearly 50 percent since we came to office.

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The family income supplement scheme will be improved so as to extend help to a further range of low income families where the breadwinner is in work. These families will benefit as well from the fuel help scheme.

This demonstrates our determination to look after the elderly and the needy. But there is another aspect to the social security programme. The government and the vast majority of the British people want hard work and initiative to be properly rewarded and are vexed by disincentives to work. One of the biggest problems is the lack of balance between social security benefits and incomes in work.

As my predecessor so often reminded this house, the next extra reward to a low earner from going out to work can be so close to the benefits he can get when on social security as to extinguish his incentive to find or stick to a job. Indeed there are people whose incomes out of work exceed what they could reasonably expect to get in work

[LD271035] Incentive to Find Work

There is undoubtedly wide-spread and justified public concern about this disincentive. It is doubly demoralising: First, to those directly affected; and second to the large numbers around them, who quite reasonably see such provisions as unjust as well as harmful to the proper workings of the economy.

This is a complicated problem which cannot easily be resolved, but the government is determined to tackle it. To start with, tax. Successive administrations have always intended that short term social security benefits should form part of a person's taxable income, in the same way as pensions and widow's benefits have always done.

The 1948 legislation said they should be taxable. It is only fair that a man who in the course of the year derives his income partly from work and partly from social security benefits should pay as much tax as a similar man who has earned the same total income. So far, the administrative difficulties have always appeared insuperable.

Now we are going to act. First, we have the scheme, which the secretary of state for social services announced before Christmas, whereby employers would have the responsibility for payment of a minimum level of sick pay during the early weeks of sickness. This will bring the bulk of sickness payments into tax through pay. This scheme should be operating from April, 1982. Second, we intend to bring benefits paid to the unemployed into tax at the same time.

This will be done in such a way that in general the claimant will neither receive refunds nor suffer deductions of tax until he is back at work. We are also considering how best to bring into income tax at an early date the remaining short-term benefits, and invalidity benefit, which primarily for administrative reasons are at present untaxed.

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But we do not have to wait until 1982 to do something about this problem. Subject to the approval of parliament, these short-term benefits and invalidity benefit will, at the next uprating, be increased by five percentage points less than would fully reflect forecast price movements.

In addition, the entitlement formula for earnings related supplement to these benefits will be altered from January, 1981, so as to reduce the proportion of earnings reflected in benefit. None of these benefits come within the tax net at present. What I am now proposing takes account of the general agreement of successive governments that they should. The earnings related supplement (ERC) scheme itself has been diminishing in worth and effectiveness over recent years. Redundancy payments are now more generous and the development of the employers' sick pay scheme means ERS is much less needed than formerly.

Of the unemployed only about 10 to 15 percent are in receipt of ERS at any one time. All in all, the government would find it difficult to justify its retention.

We, therefore, propose that the state provision of short term benefits should in future be on a flat rate basis, and that ERS should be withdrawn in 1982, with no fresh claims being taken from the beginning of that year.

The large increases in the social security programme over the years reflect in part the heavy cost of automatically indexing the value of benefits in an open-ended way. One aspect of this is the system of index-linked pensions in the public sector, which includes those payable to retired ministers and members of parliament.

Serious doubts have been raised as to whether adequate allowance is made for the value of present pension arrangements in settling public sector pay. The government intends therefore, to set up an independent inquiry into that question.

I come now to child benefit, where a judgement is needed how far the impact of inflation should be offset.

I have already explained the general problem which has to be faced in relation to both benefits and taxation. The government proposes that this benefit should be raised in November from 4 to 4.75 pounds per week for each child.

For nearly all basic rate tax-payers, this increase of 18.75 percent in child benefit will ensure that they are better off than they would have been if child tax allowances and family allowances had continued and had been uprated in line with prices. And people who pay no tax at all are substantially better off.

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Child benefit is, of course, paid in respect of every child in the country, regardless of the parents' circumstances. The increase I have just announced will add over 400 million pounds to public spending in a full year. An extra 10 pence per child per week would cost nearly 60 million pounds a year.

I have no doubt that in all the circumstances, I have done everything that is reasonable to match the claims of those who are entitled to child benefit with those of our recipients of social security. (conservative cheers and labor cries of "no")

Within the limited resources available, given the other pressures on the social security programme, they represent the best balance between protecting the old, the poor and the needy, strengthening work incentives, and securing fairness as between the taxed and the untaxed.

Full details of the changes in social security benefits will be announced by secretary of state for social services (Mr Patrick Jenkin) tomorrow.

[LD271043] Finally I turn to an area where our social security system touches on industrial relations. More than 10 years ago, one of my distinguished predecessors said: "We need to facilitate the smooth working of the process of collective bargaining in industry and to help prevent the occurrence of unnecessary and damaging disputes, of which we have seen all too much recently, and which are totally incompatible with our economic objectives."

This is what Mr Roy Jenkins said in 1969, when he announced the then government's intention to press ahead with their proposals, "in place of strife." Eleven years later, little indeed has changed, except for the worse.

Payments Keep Strikes Going

I shall refer today to only one aspect of this self-inflicted industrial damage. The social security payments a striker may claim on behalf of his family can be one of several factors which sometimes tilt the balance of industrial power against employers and responsible union leadership alike. These payments have helped to sustain some very damaging strikes.

The sums involved can sometimes be substantial. During the present steel dispute such payments have so far amounted to over 8 million pounds. This would be enough to pay the full year cost of another 50 pence on the one-parent premium or a 1 pound on mobility allowance.

Payments to strikers are widely and understandably resented and we have carefully considered how best to change present procedures.

Supplementary benefit for strikers' families will not be withdrawn together. But once parliament has passed the necessary legislation, we intend that assessments for benefits will assume the striker to have provided 12 pounds per week himself, whether in strike pay or in some other way.

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Strikers' tax refunds will continue to be taken into account in assessing needs. Until now, part of that refund--equivalent to 4 pounds per week--has been disregarded. In future regard will be had to the full refund.

We propose, too, that when benefits paid to the unemployed are brought into tax, benefits paid to strikers' families should be taxed similarly. This is an overdue reform (conservative cheers).

The government believes it is entirely fair to assume that strikers have made some provision for their families' financial support, either through their union or by some other means. It can hardly be denied that unions need to accept fuller responsibility for supporting their members when on strike than some of them have done recently.

This change will make an important contribution to restoring the balance that has so long been lacking in our industrial relations.

After the changes announced today, the social security budget will still be higher in real terms in each of the next four years than it was last year. These changes reflect new and responsible priorities such as are inevitable in a period in which resources are scarce.

Successive governments share credit for the welfare state. But social security cannot be regarded as exempt from re-examination and entitled always to take absolute priority over spending on defence, the police, hospitals or schools--or over the need for proper control of public spending as a whole. Once that fact is recognized, there can be no denying the case for modest economies in this programme.

Responsible Priorities

The tax measures which I am about to announce are consistent with the medium term strategy and the overall budgetary framework. They also take account of the changes in the balance of the economy which have come about over the last year. Many are made necessary only by the impact of inflation upon the tax system.

One of the many reasons why we need to master inflation--though not perhaps the most important--is that it would enable chancellors to make much shorter budget speeches.

Three developments in particular have influenced me: High pay settlements, high oil prices, and the high exchange rate. Together these developments have swung the balance strongly in favour of consumers and against companies, in particular against those companies facing competition from overseas, whether in home or overseas markets.

Consumers have lost something as a result of the increase in oil prices. But the great majority have more than made up for this by big pay increases

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and the benefit they have received from income tax cuts, the high exchange rate and lower prices for imported manufactures.

In 1979 average personal after tax incomes increased by 20 percent while the profits of companies not engaged in North Sea operations fell by over 5 percent in money terms, and of course by much more in real terms.

In deciding the balance of my tax changes, I see a stronger case for reducing the real burdens on companies and small businesses than on private individuals.

Of course, not all companies have lost out. The oil companies are making large windfall profits. The banks are gaining from high interest rates. Some of these are in a position to contribute more by way of taxation. The financial position of most sections of business will be eased as interest rates come down.

So far as tax changes are concerned, I shall concentrate the limited funds available to me on encouraging enterprise and on relieving specific pressures which are particularly damaging or unfair.

The government's objective in taxing North Sea oil operations must be to strike a balance between the nation's claim to a share in the profits from this national resource, and the right of those engaged in the risky business of oil exploration and development to a fair return on their efforts.

[LD271049] Since my last budget, world oil prices have increased dramatically. North Sea oil prices, which follow world prices, have risen by more than half from about \$20.70 to some \$33.75 a barrel.

This substantial change has greatly favoured the oil companies. I propose, therefore, for chargeable periods ending on 30th June next and subsequent periods, to increase the rate of petroleum revenue tax (PRT) from 60 percent to 70 percent.

At the same time, I propose to rectify some anomalies in the PRT rules concerning transfers of North Sea interests between oil companies, and the taxation of gas. These are changes which the industry has requested.

I also propose to introduce special PRT provisions for fields which span the median line between the United Kingdom and the Norwegian continental shelves.

I have one further proposal on petroleum revenue tax. It relates to the collection of tax. The PRT structure gives companies very early relief for capital expenditure. This means that PRT is not collected until some considerable time after a field has come on stream. The increases in oil prices have greatly strengthened the industry's cash position.

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I am satisfied that PRT payments can in future be made somewhat earlier. The petroleum revenue tax act, 1980, went some way in this direction. I now propose to slightly further.

We shall require companies which are liable to PRT for the chargeable period to 30 June 1981, to make at the beginning of March 1981, an advance payment for that chargeable period at a rate of 15 percent based on 1980 liabilities.

Advance payments for later chargeable periods will be made in the same way but not necessarily at the same rate. These advance payments will be off-settable against normal payments of PRT.

In total the changes in oil company taxation are expected to bring in an extra 535 million pounds, making a total of petroleum revenue tax, corporation tax and royalties for 1980-81 of rather over 4 billion pounds. We are thus ensuring that the nation as a whole secures a proper share of North Sea profits this year.

North Sea oil adds to national income mainly through increased government revenues and oil company profits. Though the sums of money are large, we must not exaggerate them. Even in the years of peak production later this decade, no more than 6 percent of GNP is expected to come from the North Sea--equivalent to perhaps two years of the kind of economic growth we achieved in the 1950s and 1960s.

This makes it all the more important that we should use the oil wisely, with an eye to our long term economic interests. In particular, we should take the opportunity offered by the growth of oil revenues to bring the level of public sector borrowing steadily down, and this is what our medium term strategy envisages.

In recent weeks there has been a good deal of comment about the profits declared by the clearing banks. Some represent a "windfall" to the banks, which arises from the combination of high interest rates and the fact that interest is not paid on current accounts.

The windfall element is not a sign of enterprise or efficiency, as the banks themselves recognize. But it is equally irrational to attribute these profits to some wickedness on the part of the banks. They need the major part to strengthen their capital base, which would otherwise have been eroded by inflation.

There could, of course, be a case in principle for a special tax related to the windfall element in these profits, and I shall be considering this further. However, it has not yet been established that such a tax is either practical or entirely desirable in today's conditions.

Leasing, in which the banks have been heavily involved, has grown rapidly in the past few years. Underlying this growth has been the 100 percent

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capital allowance, which leasing companies can claim on assets bought for leasing. The present rules apply to equipment leased to the United Kingdom industrial and commercial companies, which would qualify in their own right for these tax incentives if they were to purchase the equipment for themselves.

I do not propose any changes in transactions of this kind. Leasing finance of this sort has become an important--in many cases an essential--source of finance for investment in manufacturing industry. Under the present tax rules, however, these 100 percent allowances apply to all leased equipment.

Thus, leasing effectively extends the benefits of tax incentives to certain users--such as overseas companies, certain public bodies in the United Kingdom, and consumers--who would not qualify for tax incentives if they had purchased the equipment themselves. I propose to end these anomalies.

As from 1 June, expenditure on leading involving these users will normally qualify only for 25 percent tax allowances. There will be transitional provisions for leased television sets. Though the extra revenue in 1980-81 will be negligible, the saving in a full year will be over 200 million pounds.

These provisions will replace, from 1 June the stopgap provision for foreign leasing which I proposed on 23 October, when announcing the abolition of exchange control. They will also include measures to end the growing abuse of leasing by individuals for tax avoidance purposes. However the motability scheme for leasing cars to disabled people will continue to benefit from the existing provisions.

I have already referred to the difficult problems that many companies will be facing in the coming year, with great pressure on their liquidity. I have considered how far it would make sense for the government to help them by major tax reductions.

[LD271057] Corporation Tax Cut

Such help could only be provided at the expense of much higher personal taxation or higher borrowing and thus higher interest rates. I believe that the greatest service which I can perform for business is to reduce the burden of financing the public sector and thus to get down interest rates. I have, therefore, given precedence to this objective.

However, there is, as I observed last June, a clear need to reexamine the corporate tax structure. I have already undertaken that there will be full consultation before changes are made. I understand that the accountancy profession will be publishing their new standard on current cost accounting later this month. We will, therefore, publish a green paper later this year, reporting the results of our general review of the present corporation tax provisions.

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Meanwhile, I do not think that it would be right to change the rate of corporation tax or to make major changes in its structure. But I do propose one important concession to help companies which face a particular difficulty. A number of businesses in manufacturing, and certain areas of distribution, are concerned about the recovery charges which they will face as a result of reductions in stock levels likely to arise either because of the general pressure on liquidity or in some cases as a result of the steel strike.

I propose, therefore, to allow a substantial part of the stock relief recovery charge consequent on a reduction of stocks to be deferred for one year. This change will be subject to certain conditions, dependent on the extent to which stocks are financed on trade credit. The new relief will be given for business accounts ending after 1979-80. The cost is estimated at 210 million pounds in 1980-81 and a further 125 million pounds in 1981-82.

While further relief is justified in the cases to which I have referred, there is criticism that the present stock relief may confer an unjustifiable advantage in certain circumstances. This is a complex matter on which detailed consultation will be needed but my intention is to legislate next year in respect of the tax payable generally on 1 January 1982. This will give enough time for consultation.

I propose another modest measure affecting business taxation. I intend to provide relief for redundancy payments in excess of the statutory minimum paid when a business stops trading.

I turn now from companies to my other proposals for finding extra revenue. I begin with the indirect taxes. Last 1 June took an important step in implementing a change in the tax structure that everyone knew to be necessary. I carried out a substantial switch in the balance of taxation from direct to indirect taxes. I do not intend to go further in that direction this year. But I do intend to ensure that the real yield of indirect taxation is not eroded. Inflation can all too easily have that effect.

First, I shall deal with value added tax (VAT). Without the extra revenue from last June's budget changes it would have been quite impossible this year for any government to avoid either much larger cuts in public spending or big increases in income tax. This is the first year in which the full yield of the 15 percent rate will be available.

The yield will be some 12.45 billion pounds in 1980-81. I propose no change in the 15 percent standard rate of VAT. I am, however, making a number of technical changes, to ease the administrative burdens borne by small businesses, about which I shall have more to say later.

There have been signs that some large companies may have been delaying their VAT payments to the exchequer. This must be corrected at the earliest opportunity. Customs and excise are already taking steps, with my approval and within the existing law, to reduce the attractions of delay. But more needs to be done.

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I shall, therefore, be asking the house to raise the maximum penalty for late payment. My proposal is that it should be expressed as a proportion of the tax at stake. In practice, this will raise the penalty for only the larger companies. For them the existing maximum penalty, of 100 pounds plus 10 pounds a day, is clearly inadequate.

I also propose to remedy an anomaly in the coverage of VAT. Lubricating and certain other oils are currently zero-rated, without any real justification. We shall be laying an order to charge them at the full rate from Thursday, 1 May. This will yield an additional 12 million pounds in 1980-81 and 17 million pounds in a full year.

I want also inform the house today of my decision on one of the options for staff savings in the customs and excise.

Concern has been expressed by a number of conservative MPS and by representative business organizations at the possibility that we might withdraw the facility of monthly returns for those VAT traders who are entitled to claim repayments. I have carefully considered representations about the effect on business cash flow, and I do not intend to pursue this option further.

This year most of the additional revenue I need from the indirect taxes must come from the excise duties. Because they are applied to a physical quantity, the real value of their yield declines in times of inflation. A number of them have not been increased since early 1977 and many have been declining in real value over a much longer period. Accordingly, taking the duties as a whole, I am proposing increases which will reflect the impact of the last year's inflation and keep the real yield roughly constant.

I start with the duties on alcoholic drinks and tobacco, which were last increased three years ago. I propose from midnight tonight to increase the duties on drinks by amounts which, including VAT, represent about 2 pence on the price of a typical pint of draught beer, 8 pence on a bottle of table wine and 50 pence on a bottle of whisky.

[LD271109] The tobacco duty will be raised with effect from midnight on Friday. Including VAT, the increase will represent 5 pence on the price of a typical packet of 20 king-size cigarettes.

There will be consequential increases for most other alcoholic drinks and tobacco products, but rather less than the full amount on pipe tobacco.

The increases on alcoholic drinks will yield 273 million pounds in 1980-81 and 288 million in a full year. The tobacco increases will yield 180 million in 1980-81 and 195 million in a full year.

Next, betting and gambling. I do not propose any changes in the general betting duty or the pool betting duty. But the government has been persuaded by some of the criticisms of the present duty on casinos made by the royal

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commission on gambling. This duty depends heavily on rateable value. It is not an equitable tax, and the more profitable casinos are seriously under-taxed.

From 1 October, therefore, the present duty will be replaced by one related more closely to the profitability of casinos, and designed to produce about two and a half times as much revenue in a full year.

At about the same time the duty on bingo will be increased from 5 percent to 7.5 percent. Provision will also be made in the finance bill for restructuring the duty on gambling machines.

We intend to remove the duty on penny machines, and propose to increase the revenue from the very profitable jackpot machines usually found in clubs. These changes will yield 5 million pounds in 1980-81 and 20 million in a full year.

I turn now to vehicle excise duty (VED). Our predecessors announced their intention to abolish the duty on cars and other petrol-driven vehicles. They proposed to make good the revenue loss by increasing the tax on petrol.

As the house will recollect, after carefully reviewing the arguments, we decided that this was not a sensible change to make. Even if the tax had gone, the need for a vehicle register would have remained. This is essential to the police and for vehicle control.

So much of the form-filling would have continued. We decided it was much better to keep the vehicle excise duty, but to achieve staff savings by streamlining its administration, along the lines which the minister of transport has already proposed.

As part of this, he is announcing today that from October, four-monthly licences will be replaced by six-monthly licences.

From August, a stamp-saving scheme will be introduced to help motorists to budget for payment of this tax.

Car Tax Up by 10 Pounds

If the duty is to remain, we should be wrong to allow inflation to go on eroding its real value. Because of doubts about its future, rates of this duty has remained unchanged since 1977. I therefore make no apology for proposing increases in the duty on most vehicles of about 20 percent, and on the heaviest lorries of about 30 percent this year.

As a result, the annual duty on cars will increase by 10 pounds to 60 pounds. The larger increase on the heaviest lorries will reflect the high road costs which they impose on the community.

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These changes will produce an estimated additional yield of 240 million pounds a year, but will still leave the vehicle excise duty lower in real terms than after the last increase in 1977.

I have one further small change to announce in vehicle excise duty. Electric vehicles at present play only a small part in road transport. But they are much cleaner and quieter than vehicles powered by internal combustion engines, and they could bring big future energy savings.

Because I want to encourage their future development, I propose to abolish vehicle excise duty on them. The cost in 1980-81 will be less than 2 million pounds.

In my budget last June I stated that there was a continuing case for measures that would help us to conserve oil. The price of petrol in the United Kingdom remains well below that in any other EEC country. If we are to ensure that our oil resources are not wasted, a duty increase is justified.

If we had decided, as the last government had in mind, by higher petrol taxation I should have been obliged to consider increasing the price of petrol by at least 20 pence a gallon. That would have been necessary simply to replace the revenue formerly provided by VED.

To match the VED increase I have announced would have taken the figure to 24 pence a gallon and higher still, if the present petrol duty were itself maintained in real terms.

Since we are retaining the VED such large increases are not needed.

Instead I shall be increasing the duty on petrol, from 6 pm tonight, by the equivalent, including VAT, of 10 pence a gallon. For the last three years the rate of duty on DERV [diesel engine road vehicle fuel] has been higher than that on petrol.

I have decided that we can no longer justify this differential, which has borne heavily on commercial and industrial users. Taking account of VAT, the increase in the duty on DERV will be about 4 pence a gallon. This will mean that once again the duties on petrol and DERV are the same.

These increases will yield an additional 450 million pounds from petrol and 55 million from DERV in 1980-81, and in a full year. [sentence as published]

I also propose to raise the duty on heavy oil other than DERV by about 0.5 pence a gallon from 6 pm tonight. This will yield an additional 50 million pounds in 1980-81 and in a full year. [sentence as published]

I have decided not to increase the duty on burning oil and on domestic paraffin, which are the oils most commonly used in the home.

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[LD271117] These VAT and excise duty changes will raise additional revenue of 1.26 billion pounds in 1980-81 and 1,305 million in a full year. They do not imply any real increase in indirect taxes as compared with 1979-1980. The immediate impact effect on the RPI will be just over 1 percent, but in longer run these excise duty changes, by contributing to the reduction of the budget deficit, will help to ensure that inflation is brought down and stays down.

Company Car Unfairness

As I have explained, I do not believe I should be justified in allowing the real costs of motoring and road transport to fall, simply as a result of inflation. But if it is right in principle for road users to face a constant fiscal burden, it would not be fair to disregard the increasing unreality of the income tax partly levied on those who are partly sheltered from rising costs because they have a company car available for private use.

The scales of benefit charged to income tax have been allowed to fall well behind any reasonable measure of true values. The present figures barely cover the current cost of tax, insurance and maintenance.

This is unfair to individuals who have to bear the full cost of car ownership, not to mention those who cannot afford to run a car at all.

I propose, therefore, to increase by some 20 percent the scale figures which are used for measuring the benefit of a company car for tax purposes. This change will be effective from April 1981.

At the same time, there will be one modest relief. The qualifying annual mileage of business use above which a reduced rate of tax is charged should be reduced from 25,000 to 18,000 miles a year. In the light of our widespread consultations last year, I believe these changes will generally be recognized as fair.

I have also been considering whether I ought to take action to charge tax on the value of petrol provided by employers for private use by their employees. This would present severe administrative problems, both for employers and for the inland revenue. Even so I shall feel bound to contemplate action next year if the provision of free petrol continues to spread at anything like its present rate.

As the burden of income tax is reduced, I would hope to see a decline in the provision of benefits in kind.

It is consistent with that view for me to impose a reasonable charge to income tax on benefits which do remain. In that spirit, I approach one area this year which has so far escaped the eye of my predecessors.

I refer to the provision for employees of items such as suits of clothing and television sets. I propose to double, from 10 percent to 20 percent,

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the proportion of the value of such objects taken as a measure of the annual taxable benefit. And I shall impose an effective charge where the items concerned are subsequently acquired by the employee for less than true value.

I am also taking steps to increase from 9 percent to 15 percent the rate of interest used to measure the value of beneficial loans to employees and to raise to 200 pounds sterling the limit below which the benefit of such loans is not charged to tax.

Fringe benefits are charged to tax only if the employee earns more than a certain amount, now 8,500 pounds sterling. The case for abolishing this threshold has been pressed upon us. I have asked the inland revenue to consult employers and others about the administrative problems that might be involved in such a change.

I now turn to main proposals for income tax. The cuts I made last year were an important start on reducing the oppressive burden of direct taxation. At every income level, taxpayers now retain a significantly large share of their incomes, which they are free to spend or save as they choose.

I intend to do more in the future. But at a time when output is falling and we are making further heavy cuts in public expenditure, I cannot afford to protect income taxpayers fully from the effects of inflation. This then must be a year of consolidation.

At first sight that would suggest increases in the personal allowances which fall some way short of the rise in prices during 1979. But this would have a number of undesirable effects.

It would lower the starting point of income tax in real terms compared with a year ago. It would increase the number of taxpayers. It would narrow the gap between tax thresholds and the main social security benefits. And it would impose particularly heavy burdens on those with the smallest incomes. All those effects would be most be most undesirable.

Given the limited scope available, I have considered how to avoid this consequence. I mean to do so by adopting an alternative approach. I propose to increase the main income tax allowances by 18 percent or so, which is in line with the rise in prices and in conformity with the indexation requirement of the 1977 finance act. This will bring substantial relief to all taxpayers.

But in order to afford this, I intend to remove the lower rate band of taxation, levied at 25 percent on the first 750 pounds sterling of taxable income. This combination will protect the position of the very poorest taxpayers, while ensuring that basic rate taxpayers receive some, though not complete, protection from the rise in prices.

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The single allowance will thus be increased by 210 pounds to 1,375 and the married allowance by 330 pounds to 2,145. The correspondent allowances for people over 65 will go up by 280 pounds to 1,820 and by 440 pounds to 2,895. The income limit for the [here begins printing garble in THE TIMES: passage through end of this take is as rendered in the FINANCIAL TIMES p 17] age allowance will go up to 5,900 pounds. Also the additional personal allowance, available mainly to single parents, will go up by 120 pounds to 770. The revenue cost of these increases in 1980-81 will be some 1.8 billion pounds, offset by a saving of 750 million from ending the lower rate band.

[LD271139] I cannot this year make any further reductions in the income tax rates. So the basic rate will remain at 30 percent and the higher rates will also remain unchanged.

The case for the lower rate band was never at all clear. The 25 percent rate was not the effective marginal rate for more than a small number of full-time adult workers. For those on lower incomes an increase in the personal allowances would always have been more valuable than the lower rate band.

And the existence of this lower rate band added significantly to the complexity of the tax system. Its disappearance will simplify and shorten the pay tables, and reduce the administrative burden on employers and on the island revenue, where there will be a valuable staff saving of 1,300.

I am in no doubt that it is right, in a year when difficult choices have to be made, to concentrate on raising the tax thresholds for everybody, as I have proposed, by about 18 percent. I am also in no doubt that it is necessary to abate the tax reductions which follow from that change by the abolition of the lower rate band.

Taken together, these changes are equivalent to an effective increase in tax reliefs of 11 percent for a married couple and rather less than that for single taxpayers. The 18.75 percent rise in child benefit implies a broadly comparable annual rate of increase--about 11 percent--over its April, 1979, level.

Next, higher-rate taxpayers. Given the substantial improvements last year it would not be appropriate to give major relief to higher-rate taxpayers this year. (labour cheers) However, our progressive income tax system operates in such a way that those who pay tax at higher rates experience sharply increasing tax burdens in times of inflation.

In the ordinary course it would be right to increase the higher rate threshold and bands by the same proportion as the increase in personal allowances. That would imply 18 percent this year.

But this year the improvements in personal allowances are partially offset by abolition of the lower rate band. That chance will have only limited significance for those on higher incomes. So I have decided not to raise

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the higher rate thresholds fully in line with inflation, as I have done for the main personal allowances, but to put them up by only about 11 percent.

That is, as I have explained, broadly equivalent to the total net increase in tax reliefs which I have proposed for married couples paying tax at the basic rate.

In money terms the threshold for the higher rates will be raised to 11,250 pounds and the threshold to the top rate of 60 percent to 27,750 pounds. There will be corresponding increases at the intervening points. So far from making the rich richer, these restricted improvements will result in an increase in the real burden of income tax for the higher rate taxpayer.

The cost of increasing the higher rate thresholds is 100 million pounds in 1980-81 compared with a cost of 140 million if they had been fully indexed. I am also limiting this year's increase in the threshold to the investment income surcharge to 1 percent, that is to 5,500 pounds.

However, with a view to consistent treatment in future years, I shall include provisions in the finance bill which should ensure, with effect from next year, that the higher rate threshold and bands, together with the investment income surcharge threshold, are covered by indexing legislation in the same way as the main personal allowances.

For the typical married couple with two children the net effect of my budget changes will be to increase their weekly income by 2.68 pounds per week from November. For a single man with the same earnings the increase will be 49 pence per week.

The income tax changes I am proposing will be given effect when new tax tables have been printed and distributed. They will be made together and will produce a net increase in take home pay on the first pay day after 31 May.

Gallantry Exempted

I am proposing two other small income tax changes which have long merited action.

I propose to exempt from tax the payments made to holders of certain gallantry awards, such as the distinguished conduct medal and the conspicuous gallantry medal. These will in future be treated in the same way as annuities payable to holders of the Victoria cross and George cross.

I want also to do something more for widows in the difficult times immediately following bereavement.

I therefore propose to increase the present single allowance which widows receive for the tax year in which they are bereaved. The addition for that

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year will, at its maximum, bring the single allowance for widows up to the level of the married allowance.

We have also been reviewing the treatment for tax purposes of husband and wife. This is a complex and important subject. I am grateful in particular to the equal opportunities commission--(loud laughter)--for the light which their publications have shed on this aspect of sex discrimination. It is easier to define the problems than to find the answers. Certainly, radical changes should not be made in haste.

I propose, therefore, to issue later this year a green paper on this subject. I hope that it will stimulate further constructive debate, leading us ultimately to acceptable solutions.

Although, as I have just explained, this is not a year in which sweeping reductions of income tax are possible, that need not prevent us making sensible reforms in the tax system wherever the opportunity offers.

[LD271203] I have frequently drawn attention to the extent to which the tax system has woven itself deeply into the fabric of national life. Tax has been piled upon tax, often with little regard for their interaction. The accidental effects of this tax onslaught have often been as damaging as the direct consequences.

This government came to office pledged to bring more simplicity and consistency to the tax system, we have already undertaken a series of major reviews. I should like here to thank both the inland revenue and the customs and excise for the heavy load of policy review work they have carried out so thoroughly during the last nine months. (Opposition shouts of 'and then sack them'.) This should all bear useful fruit in the years ahead.

This year I have progress to report in three important areas where I believe that fiscal reform can encourage private action--in connexion with housing, the national heritage and voluntary organizations.

We wish to encourage the private provision of housing as well as wider home ownership. Home ownership adds to the quality of life. And private provision of housing means we can save public resources for other areas where a private sector alternative is not available.

My first proposal is designed to help first-time buyers in particular. I have received representations from many quarters about the burden of stamp duty on house purchasers. Difficulty in acquiring a new home restricts the mobility of labour. Those at the lower end of the market--mainly young couples--particularly deserve help.

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Stamp Duty Changes

I do not think these considerations justify us in making, this year, an increase in the mortgage interest relief ceiling, which I propose to maintain at 25,000 pounds. But I do think it would be right to raise the starting point for stamp duty on transfers of property by 5,000 to 20,000 pounds.

The limits for reduced rate bands will be similarly increased, by 5,000 so that the full 2 percent rate will now be reached at 35,000 pounds. This will cost 75 million pounds in 1980-81 and 85 million in a full year.

Too many homes are under-occupied, or even standing empty--this is often a direct, even if unintended, result of rent control: sometimes it is a consequence of planning policies the secretary of state for the environment is improving.

There are also fiscal obstacles to the economic use of the available stock of property. One of these I intend to deal with this year. I propose a new and additional relief from capital gains tax to help people who let part of their homes. At present these house-owners, when they come to sell, can find themselves unexpectedly faced with a capital gains tax charge. This change will encourage letting, and contribute to the better use of the housing stock. (conservative cheers)

Next, the national heritage. The house has already passed a bill to set up the national heritage fund. The finance bill will include a provision to treat it for tax purposes as if it were a charity. The fund will be set up with an initial amount of around 12 million pounds disposal.

The government will in future make an annual contribution to the fund, including the amount needed for the continuation of the acceptance in lieu system. But we should also do more to make it possible, both today and in the future, for owners of historic houses to look after their properties on behalf of the nation as a whole.

The last government took a similar view and introduced provisions to assist owners to set up maintenance funds for the support of their houses. But the scheme proved to be so restrictive that it has hardly been used.

I intend, therefore, to recast substantially the maintenance fund provisions. If we are going to adopt this method of encouraging the preservation of our heritage--and I believe it is the right one--then it is only sensible to make it work. Our fresh proposals will apply to the maintenance of buildings, historically associated contents, gardens and land of historic, scenic and scientific interest.

The overriding condition will, of course, be that the public should have reasonable access. These measures are intended to cement a bargain between those who have to bear the cost of maintaining the national heritage, and the people as a whole.

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The third way in which we aim to assist private action this year is by providing tangible government support for the widespread and often unsung voluntary effort that goes on at every level of our national life.

It is important to do all we can to help charities and to stimulate private benefactors and helpers. A partnership between helpers, a partnership between government and voluntary effort can be the best way of meeting many pressing social needs, particularly when state spending is having to be cut back. With this in mind, I have given careful consideration to the fiscal recommendations of the Goodman Committee and of the national council of social service.

I propose to double--to 200,000 pounds--the capital transfer tax exemption for bequests to charities; and to exempt wholly from development land tax all future disposals of land by charities. Income tax relief for payments in charities made under deeds of covenant, which has hitherto been limited to the basic rate of income tax, will be extended to the higher rates subject to a ceiling of 3,000 pounds a year. (conservative cheers)

A minor stamp duty easement on deeds will be made. And in response to representations I am reducing the period for tax relief on deeds of covenant from seven years to four years. These measures, which will cost 30 million pounds in a full year, are designed to provide the right conditions for substantial growth in the important partnership between voluntary service and the community.

[LD271205] Now I turn to an area where the tax system can be used to involve the individual more closely in the workings of the economy. I refer to proposals which will encourage direct personal investment in the stocks and shares of British industry. In the last 20 years the proportion of the equity of British companies held in direct individual ownership has been almost halved. This is a trend I should like to reverse.

It is generally agreed that share ownership and profit sharing can help in developing employees' understanding of, and commitment to, business and industry. I believe that share ownership can also spread a wider understanding of the role for risktaking and initiative in the economic system.

Employee Shares

I have two sets of proposals to make. First, I propose to make more generous the provisions which the last government introduced two years ago to encourage profit-sharing. In passing, I would note that those provisions were based upon proposals originally put forward by the secretary of state for energy. They attracted all-party support. I propose to raise from 500 pounds to 1,000 pounds a year the value of shares allocated to any one employee which can qualify for tax relief; to reduce from five years to two the period after which employees can sell their shares; and to cut from 10 years to seven the period after which they can draw them out free of income tax.

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Second, I propose to reintroduce legislation similar to that which Lord Barber introduced in 1973 enabling employees to be given options to buy shares in their companies without incurring liability to income tax. This scheme will have links, as in 1973, to a scheme for contractual savings. These measures will help to fulfill our promise to encourage employee share ownership and provide the incentive to save and build up capital.

There is one anomaly in the field of life insurance, which I propose to put right. The rate of life insurance relief used to be equivalent to half the basic rate of income tax. It has recently got out of line and I propose to restore the relationship by reducing it to 15 percent.

Because of the practical problems posed for the life insurance industry, the change will not take effect until 6 April next year. Steps will also be taken to deny life assurance premium relief to certain short-term bonds. This change will take effect from today.

Before I leave discussion of the capital markets I should add that I propose that traded options, which at present are anomalously treated as wasting assets for capital gains tax purposes, should in future be treated on the same basis as share warrants.

I hope these measures will help to encourage the wider direct ownership of shares, by altering the relative attractions of investment through the institutions and through more direct means.

I come now to a series of measures which are intended to increase the wealth-creating vitality of our economy. That means giving greater encouragement to the processes of economic change, and improving incentives to the enterprise sector. For the mainspring of economic vitality it is now widely agreed that we must look to private initiative, widely dispersed and properly rewarded. Enterprise means jobs.

I start with capital taxation, which is widely regarded, and rightly so, as a severe discouragement to those seeking to build up a business and pass it on the next generation. We have, as I promised last year, subjected capital taxation to a thorough review. Representations from a large number of bodies have confirmed that the damage done by these taxes in their present form is out of all proportion to their yield.

There is, of course, a place for capital taxation, including in particular a charge on death. But change is needed. What I can do this year must be constrained by our financial position. I am, therefore, proposing changes which will be of particular help to smaller businesses. This is in earnest of our determination to make further progress when economic conditions permit.

First, the march of inflation over the years has brought far too many estates into charge to the capital transfer tax. This is a particular burden on the small business, when it passes from one generation to another, whether on death or by lifetime transfer.

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I propose therefore that the threshold for the capital transfer tax should be increased to 50,000 pounds. This will exempt from the tax at least two thirds of the estates which would otherwise have been liable; and up to 400 fewer staff will be needed than if we had left the threshold unchanged.

A reduction in the scale of rates above the new threshold, however much it is needed, is not possible at the moment; nor are other changes I should like to have made. I am, however, making one or two minor changes designed to reduce administration.

In the case of the capital gains tax, I am fully conscious of the impact inflation has had. It can rightly be argued that the tax often falls on what are no more than paper gains. Proposals for indexation or tapering as a means of meeting this problem have been put forward on many occasions in the past.

I have had both proposals reexamined but the conclusion to which I have come is that both would result in an unwelcome increase in the cost of administration--for taxpayers as well as for the revenue--while reducing the yield of the tax to negligible proportions.

I cannot, however, leave matters as they are. I propose, therefore, to replace the present 1,000-pound exemption--which is progressively withdrawn above 5,000--by a straightforward allowance of 3,000 pounds.

[LD271209] This change, which will operate from 6 April, will remove from tax half the cases at present liable; and at a reasonable revenue cost, it will reduce staff requirements by 300. As a corollary of this new proposal, there will be an exemption for the first 1,500 pounds of gains for trusts; and investment and unit trusts will now be exempted from the tax, although investors in such trusts will remain liable if their own gains in the year exceed the new exemption limit.

Finally, I propose to remove the present double charge on gifts, which arises from the overlap between capital transfer tax and capital gains tax, by providing roll-over relief for the latter. This has been a particular source of grievance and one on which representations have been received from a large number of people.

The cost of these changes in the capital transfer tax will be 60 million pounds this coming year and twice as much in 1981-82.

In the case of capital gains tax, there will be no cost this coming year and a cost of 25 million pounds in 1981-82. These figures need to be judged against the already rising yield of the capital taxes as a result of inflation.

I realize that these necessarily limited changes will fall short of what many people had hoped for. But I must ask for patience in present circumstances. Meanwhile, the benefit the present changes give to the small business should not be under-estimated.

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Because of the 50 percent relief--which will remain, as will the comparable relief for agriculture--a person transferring a business worth 100,000 pounds will pay no capital transfer tax, if there are no other assets.

We would, of course have liked to bring similar help to businesses of all sizes. My proposals do give some measure of relief to everybody, but this year most assistance goes to small businesses.

As I have already indicated there have been extensive consultations on capital taxation before the budget. We propose to continue this process. There are in particular certain specialized areas such as settled property which require very detailed consideration.

Assisting 'Demergers'

I now turn to another tax which can inhibit development, the development land tax. In my last budget I reduced the rate of this tax to 60 percent and increased the exempt slice to 50,000 pounds. I then said there would be no further reduction in the rate and no early increase in the exempt slice. This remains the position.

Representations have, however, been made to me from many quarters that the tax inhibits development because of uncertainty about the amount of tax chargeable which can normally only be ascertained once development starts.

It is important to remove obstacles of this kind if we are to make the best use of our resources.

I propose to deal with this point and the necessary legislation will be added to the finance bill at an appropriate stage. There will also be a number of other detailed improvements. All these changes are designed to free the market and encourage development.

Taxes are stifling independent enterprise in other ways too. For many years the fashion both in government and in industry was to favour mergers and amalgamations. No doubt mergers have brought advantages in some cases.

But it is now clear that the fashion for industrial elephantism was great exaggerated. I believe that there are cases where businesses are grouped together inefficiently under a single company umbrella.

They could in practice be run more dynamically and effectively if they could be "demerged" and allowed to pursue their own separate ways under independent management.

The present tax rules can in practice effectively discourage demergers of this kind, by charging the assets of the "demerged" company to advance corporation tax and income tax as distributions.

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I propose to bring forward, during the passage of the finance bill, measures to ease the tax charge on distributions of this kind, subject to certain safeguards and where they are concerned solely with the genuine splitting off of independent trades within the corporate sector. My colleagues and I would welcome any views those outsider government might have on these proposals. It may be that further measures will turn out to be justified.

I now turn to measures specifically designed to improve the tax environment in which the small business lives and works.

Any business, but particularly the new small business just starting up, needs somewhere to operate.

An imaginative and helpful new venture in recent years has been the development of estates of small industrial workshops for separate letting to small businesses.

I propose to bring in a small workshop scheme which will enable industrial buildings allowances at the rate of 100 percent to be claimed on the construction of small industrial buildings. The scheme will run for three years, and will simplify the present administrative arrangements.

I shall also make provision for industrial buildings allowance to be given on the construction of industrial buildings rather than on their first lettings.

In addition to my own proposals, the secretary of state for the environment intends to consult on relaxation of planning controls over changes of use as between light industry and warehousing for small units. The secretary of state for industry intends to make 5 million pounds available to build 1,000 new nursery factory units in assisted areas in cooperation with the private sector.

[LD271213] New businesses and particularly new small businesses also need capital. Many people with capital to invest might be ready to back enterprising ventures if they knew that losses could be offset against taxed income, instead of only against capital gains.

I propose that, through a new venture capital scheme, losses on equity investment in unquoted trading companies, incurred after 5 April 1980 may be set off against income.

Next, I propose to relax the conditions for tax relief for interest paid on money borrowed for investment in, or lending to, a close company. The present rules require an investor to have worked for the greater part of his time in the company's business. I propose to abolish that condition, and thus provide added incentive for outside investment in small firms.

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Just as important as attracting new capital from the outside is the generation of new capital from the inside, in the form of profits which are retained in the business. The tax system has now contained for over 50 years a series of provisions under which a "close" company may be required to justify the amount of profits which it wished to retain in the business, undistributed.

Following last year's reduction in the rate of income tax, I now propose important changes including the abolition of the apportionment of trading income both of close trading companies and of members of trading groups.

These changes will cut out a thicket of complex tax provisions, which are time-consuming for the small trading business, and a real impediment to growth.

But if small companies are to generate the funds to finance their expansion, they must first earn profits and then they must be left with sufficient of those profits after payment of tax. Better profits must come through improved efficiency and greater productivity.

That is a matter for industry itself and not for government. But government can help by reducing the burden of tax. I propose therefore to cut the small companies rate of corporation tax to 40 percent--that is no less than 12 points below the full rate of 52 percent--and at the same time to raise the qualifying limits to 70,000 pounds for the full relief and 130,000 for the marginal relief.

My next proposal is designed to help the unincorporated small business. It is important that the self-employed should be able, with tax assistance, to make adequate provision for their retirement.

I am therefore raising the limits on retirement annuity relief. The normal percentage of earnings qualifying for tax relief will go up from 15 percent to 17.5 percent, and the ceiling on the premiums qualifying for relief will be abolished.

I also propose some minor measures affecting business taxation. Following consultations with industry I propose that the costs of raising business loan finance should be allowed for tax purposes: relief will also be given for pre-trading expenses of a business provided these expenses would have been allowable if the business had been trading when they were incurred.

Certain changes will also be made in the tax deduction scheme for the construction industry--the 714 scheme--which will lighten the administrative burden of the scheme and change certain features which operate harshly.

As the last element in my package to help small businesses, I am making certain changes in the arrangements for VAT, in order to ease the administrative burden.

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I propose that from midnight the registration threshold for VAT should be increased from 10,000 pounds to 13,500. The de-registration limit will also be increased from 1 June.

At the same time I shall be increasing from 50 to 250 pounds the relief from payment of tax on stocks and assets when a person de-registers.

Despite the severe financial restrictions, we are thus giving help to smaller businesses at many, many points where the system bears too harshly. Individually relatively few of the measures could be described as of major importance: but taken together they represent a significant step forward in making this country one in which enterprise will be properly rewarded and thus flourish again.

Together they will cost about 160 million pounds in a full year.

Finally, I come to an idea that is intended to pioneer a new, and more adventurous, approach to the whole question of industrial and commercial renewal.

There are some parts of our economy, most notably in the older urban areas, where more and more public authority involvement seems to have led to less and less fruitful activity. The planning process has all too often allowed, even caused, whole areas, at the heart of some of our most populous cities, to be laid to waste for years, even decades.

Even when plans do finally come to be made, the public purse is often unable to provide the funds, or the enterprise, to match the planners' aspirations. And when private initiative might have been ready to stir, it has generally been stifled by rules and regulations--and by a tax system which pays no regard to these special problems.

Some MPS may recall that, in a speech made on the Isle of Dogs, a little less than two years ago, I put forward a proposal for trying to bring new life back to these areas of urban dereliction. The idea was not politically partisan. For my thinking had taken place in parallel with that of the distinguished Fabian, Professor Peter Hall.

Quite independently, we had concluded that there was much to be said for the establishment in these man-made wildernesses of what I have called "enterprise zones."

I am, therefore, pleased to be able to announce today action by the government which will transform into reality the idea which I then put forward.

[LD271221] We are proposing to establish, in the first instance, about half a dozen enterprise zones--with the intention that each of them should be developed with as much freedom as possible for those who work there to make profits and to create jobs. Each will cover perhaps 500 acres. Within these zones two major tax incentives will be available; first, 100 percent capital allowances for both industrial and commercial buildings; and, second, complete relief from development land tax. But fiscal concessions are only

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part of what is needed. These zones will, therefore, enjoy the following additional benefits: 100 percent derating of industrial and commercial property; a drastically simplified planning scheme; exemption from the scope of industrial training boards (with consequent exemption from industrial training levies); accelerated handling of applications for warehousing free of customs duty; minimal requests from government for statistical information; and abolition of the remaining industrial development certificate procedures.

I hope and believe that an imaginative experiment along these lines may succeed where conventional policies have proved inadequate. No one can doubt the need for change from present arrangements. In far too many of our towns and cities today, and far too many businesses, particularly small and new ones, the gap between a productive idea and a foreseeable profit has widened into a chasm of red tape. And the same red tape all too often stands between a young school leaver and the prospect of a job.

Even before this proposal had any official status at all, there has been no lack of interest in the idea. The government will be consulting local authorities and other interests before decisions on individual areas are made. Fuller details will be found in the policy document, which is being issued this evening. There could not be a better time for making a fresh start of this kind.

For in the decade that lies ahead, Britain has the opportunity of following a more hopeful path. We have ended the 1970s with a society that is becoming less tolerant, because we live with an economy that has been growing no richer. The 1980s can be very different.

The disappointments of the last decade spring from illusions that have persisted too long: the illusion that we can pay ourselves what we have not earned; the illusion that governments may go on borrowing when they dare not tax; and, most foolish of all, the illusion that we can somehow strike our way to higher living standards.

The essential condition for success in the 1980s is that we should turn our back on those illusions, that we should have the courage, over a period of years, to carry through the realistic policies to which there is no alternative.

In this budget I have tried to set those policies in a strategy for the medium term. Nothing will be easy in the years immediately ahead. But beyond that the strategy offers hope of real success. It is a strategy for the defeat of inflation, by the reestablishment of monetary control. It is a strategy for the restoration of prosperity, by the encouragement of enterprise.

Politics is not only the art of the possible, it is also the art of the necessary. The strategy outlined in this budget is designed to do what is necessary--and to lay foundations for the success which is well within the grasp of the British people. (loud conservative cheers)

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